GUIDE TO DEBT COLLECTION

About the Author

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Ehab Abou Alezz possesses extensive knowledge in the area of Debt Collection which has been further strengthened by his service tenure with prestigious banking firms in United Arab Emirates: Emirates

International bank, HSBC Middle East, Amlak Finance, Hadaf Al Khaleej Debt Collection and Alwasl International Group.

My Deepest Gratitude to:

Dr. Ibrahim Al Fiki & Mr. Hemant Mohan

I sincerely hope my book would be helpful for debts collectors in increasing their knowledge in the areas of communication and negotiation leading to a successful career in the field of debt collection.

Ehab Abou Alezz

COLLECTION GUIDELINES

A football team of eleven players has a specific target - to win the match by being right at the top of any tournament. Teamwork is therefore vital to achieve this target. Each player has a role and should fulfill his part of the plan by:

- Learning the skills of playing the game.
- Possessing knowledge of the rules governing the game.

To win each match, the team should score goals while simultaneously protecting their goalpost from the other side. If the team has strong and professional attackers, the team will score more goals, but this does not imply that the team would win the game, unless they have strong defenders to protect their net/goalpost.

The outcome may be one of the following:

1- Score more goals and win the game.

2- Score many goals but receive several goals which would lessen the joy of feeling and enjoying victory.

OR

3- Receive more goals and lose the game.

This example may be used to understand the scenario of Debt Collection process. It is imperative for Banks, Financial institutions, and Corporate Businesses to create market expansion and earn higher market share by effective distribution of loans, credit cards and other lending facilities. It contributes to the successful achievement of organization target and shareholders satisfaction by maximizing the organization's net profit and wealth. However, although these credit lending facilities would lead to increase in sales, irregular and default in payments would prevent/limit their sales team (Attackers) from expanding and force them to turn back to the defense zone for protecting their goalpost.

In other words, the delinquency rate would affect the organizations' risk appetite and cash flow thereby prompting them to narrow the credit policies and involved cost of collection to avoid provisioning and write-offs.

The Defense Zone:

Referring to the example scenario of the football game; companies, banks, financial institutions need to establish a strong collection team i.e. defenders with a strong collection policy, and collection tools consisting of internal and external debt collectors with high skillset in the area of collection and negotiation. Absence of this essential knowledge, especially in the present market situation where there has been a significant rise in the number of payment defaulters, would culminate in the loss of growth opportunities and market expansion for any organization.

Contents

Part One

1. BENEFITS OF HAVING A COLLECTION TEAM

1- Reduce Business Risk.

The collection team would provide organizations with market feedback and MIS analysis, detailing customer behavior pattern, sector wise industry performance and identify the possibility of fraud at the very onset.

2- Increase of Cash Flow.

Timely collection of monies would ensure healthy cash flow enabling the organization to achieve targeted financial performance and settle its financial obligations on time without the risk of losing deals and vendors, thereby minimizing budget related concerns.

3- Provision Write Back & Profit Realization

The creation of provision towards Bad debts and Doubtful accounts is a heavy burden on the Profit & Loss Account. Effective debt collection would lead to a reversal of this provision back to the profit account which is essential for the growth & performance of every organization.

4- Control and management of portfolio ODD.
ODD is the number of bad accounts to good accounts, i.e. how many good accounts would be required to cover the losses of bad accounts? Healthy portfolios would maintain a significantly low number of ODD.

5- Cultivate a mindset of seriousness among the defaulters.
By regular follow-ups via calls and email correspondence, debt collectors would emphasize the importance of timely settlements among defaulters. The defaulters should be made aware of the diligence and seriousness of the debt collectors so as to avoid deviations/delays in the agreed settlement dates.

6- Providing feedback to Strategy Management.

Financial institutions should formulate their internal lending policies and determine their risk appetites based on the feedback reports from the collection department. MIS team provides vital information on the quality and quantity of the defaulters and the rate of delinquency, that would in turn facilitate their decision making in tied or starched lending policies.

In the next chapter we shall refer to the defense zone, the defenders, and their characteristics.

2. THE COLLECTOR

There is a common misperception regarding the collection agent's personality. The debt collector very often is not, a tough person, with a frowning demeanor, strong Hulk-like body, sharp snappy voice and zero educational background.

In the last decade of market fluctuations, corporates and financial firms have realized the importance of having a professional debt collection team.

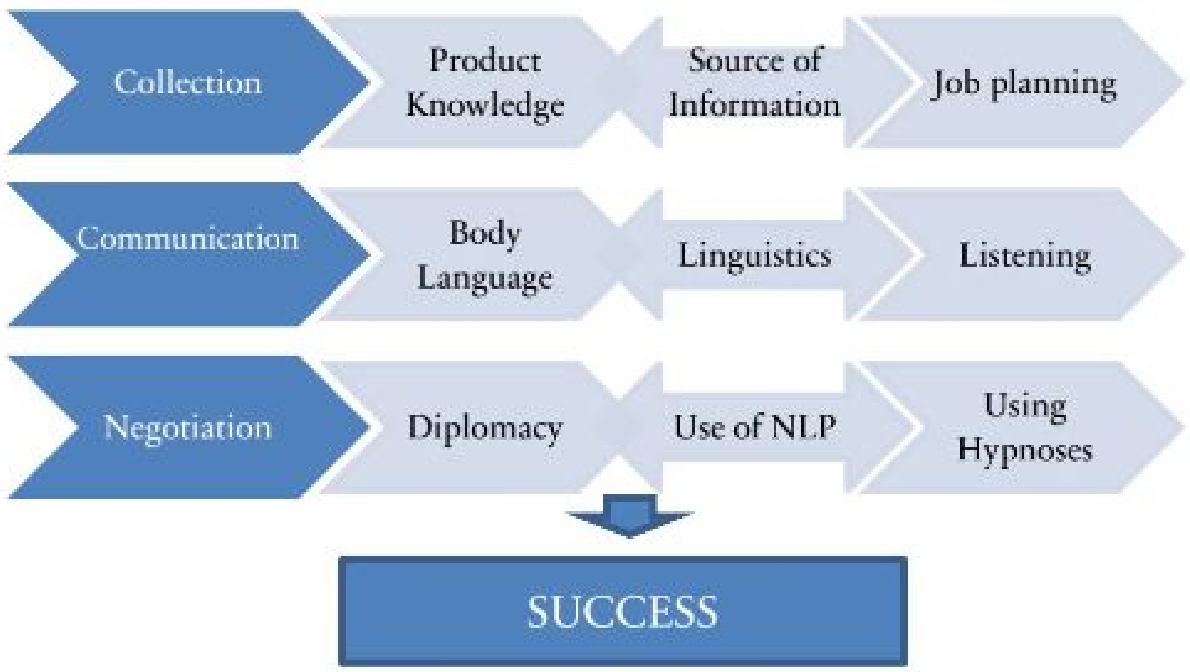
In a fair comparison between the sales executive and the debt collector, it is necessary to understand the challenges faced between the two:

The Sales executive has a tough job to convince his clients with his goods/services, but, he could sell his goods/services to a person who is willing (having a desire to buy such goods/services) and able (having the ability to pay for them).

The Debt Collector has a job far tougher whereby he must sell his goods/services to a person who either has no willingness or no ability and oftentimes, neither of both.

Hence the significance of a debt collector's job cannot be undermined.

3. PRE-REQUISITE SKILLS FOR A DEBT COLLECTOR



A combination of the above skills is of utmost importance in a debt collector to add value in the defense zone for any financial institution.

To summarize, a Debt Collector should have the collection skillset of:

1. Full knowledge of the products, facilities and/ or credits provided to the customers.
2. Resources and contacts which would help to trace and contact customers.
3. Job planning skills to organize/arrange the paperwork and selection of proper approach to commence the tracing process and establish the first contact.

4. Using communication skills that would help in creating, understanding and evaluation of the facts to arrive at different solutions and select the most feasible one.

5. Maintaining routine contact with debtors, working towards debt settlement through application of negotiation skills.

4. FACTS OF COLLECTION

- Products or services provided without adequate remuneration would effectively be referred to as offering a loan.

- The amount of background information on the debtor is directly proportional to the possibilities of debt recovery. More the information you have about who is going to pay you back and where to find them - the more likely you are to get paid.

- Always maintain contact - Call Them; If no payment is made, there is likely to be a problem, you need to find out what it is. If there is a dispute, they will not call you. However, if you call them while it is still fixable, you get paid.

- All recoveries are 100% profit. If the operating margin is 10%, it would require 10 new customers to make up for the loss of one account.

- In any financial institution, Collection department is considered as one of the two Profit Centers, the other being Sales.

A. COLLECTION SKILLS

The expertise of Debt Collection requires a set of 3 major skills which can be construed as the foundation to a successful career in this profession.

(A –1) Product Knowledge & (Business Environment)

The art of persuasion relies on the thorough knowledge of the client's business environment and the products/services dealt in. This would be crucial to understand and resolve customer issues while adhering to the client's business policies.

A Debt Collector should be proficient in the knowledge of:

- Products/Services and their criteria.
- Terminologies and concepts in use.
- Interest and profit rates calculation.
- Statements containers and intricacies therein.
- Terms and conditions of the contracts.
- Credit and Collection Policies.
- Core and Collection Systems.
- Laws and legal practices in place.

B. INTRODUCTION TO BANKING & FINANCE COMPANIES

What is a Bank?

A Bank is a financial intermediary that accepts deposits and channels those deposits into lending activities.

Types of Banking & their primary activities:

- Retail Banking - dealing with individuals and small businesses.
- Business Banking - providing services to middle market business.
- Corporate Banking - directed at large business entities.
- Private Banking - providing wealth management services to high net worth individuals and families.
- Investment Banking - relating to activities on the financial markets.

What is the Central Bank?

Central Bank, Reserve Bank, or Monetary Authority is an institution that manages a state's currency, money supply, and interest rates. Central banks also usually oversee the commercial banking system of their respective countries. In contrast to a commercial bank, a central bank possesses a monopoly on increasing the amount of money in the nation, and usually also prints the national currency [wikipedia.org], which usually serves as the nation's legal tender. Examples include the European Central Bank (ECB), the Federal Reserve of the United States and UAE Central Bank.

Trade Finance

Trade Finance is basically related to Domestic as well as International Trade Transactions. Trade finance allows companies to receive a cash payment based on accounts receivables in case of factoring. A letter of credit might help the importer and exporter to enter a trade transaction and reduce the risk of nonpayment or non-receipt of goods.

[investopedia.com]

Letter of Credit (LC)

A letter of credit is a document issued by a financial institution, or a similar party, assuring payment to a seller of goods and/or services provided certain documents have been presented to the bank. These are documents that prove that the seller has performed the duties under an underlying contract (e.g., sale of goods contract) and the goods (or services) have been supplied as agreed. In return for these documents, the beneficiary receives payment from the financial institution that issued the letter of credit. The letter of credit serves as a guarantee to the seller that it would be paid regardless of whether the buyer ultimately fails to pay. In this way the risk, should the buyer fail to pay, is transferred from the seller to the letter of credit's issuer. The letter of credit can also be used to ensure that all agreed upon standards and quality of goods are met by the supplier (Provided that these requirements are reflected in the documents specified in the letter of credit). [wikipedia.org]

Letter of Guarantee (LG)

It is the letter issued by a bank to guarantee a transaction and / or performance.

A. FACILITIES (TAMWEEL)

a.	Credit Card –	Islamic Credit card
b.	Personal Loans –	Murabaha and
c.	Auto Loans	Murabaha Auto
d.	Overdraft -	Istesna'a
		Salam
		Tawaroq

2- Defaulters and collection in Islamic Banking.

3- Legal action (Criminal – Civil).

4- Field Visits.

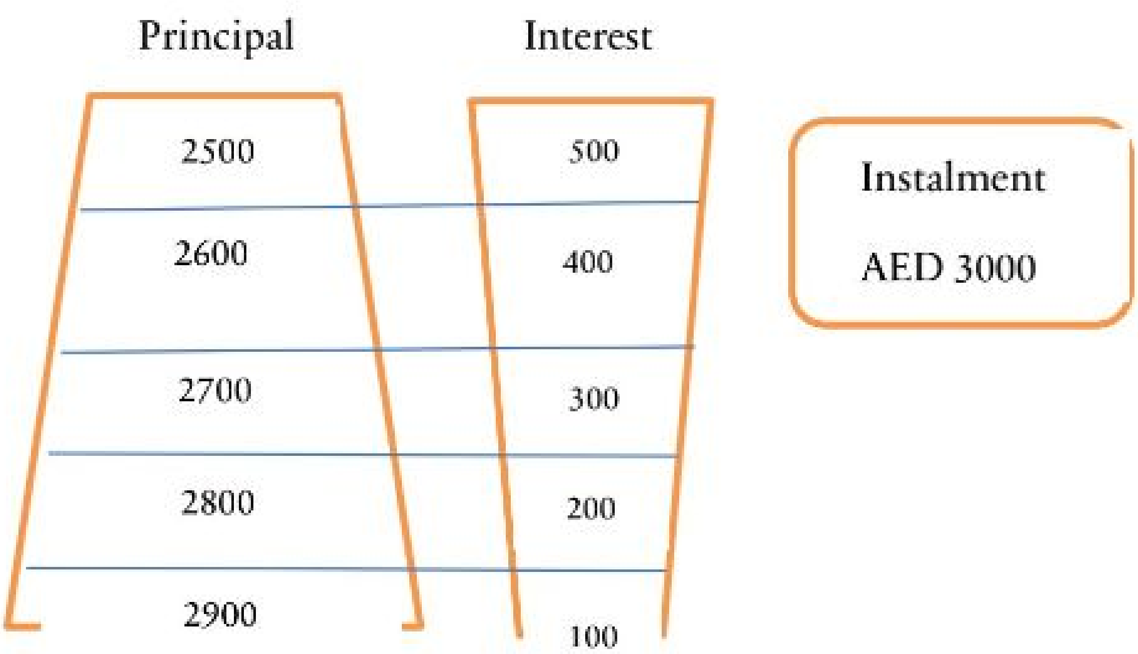
5- MIS Reports

<u>Types of Interest and Types of profit (in Islamic banks)</u>

<u>Flat rate Interest</u>

The nominal APR is calculated as the rate, for a payment period, multiplied by the number of payment periods in a year.

Reducing balance Interest



Compound interest

Future value $FV = PV(1+i)^n$

Present Value $PV = \dfrac{FV}{(1+i)^n}$

Interest $i = \left(\dfrac{FV}{PV}\right)^{\frac{1}{n}} - 1$

$$S = P\left(1 + \frac{j}{m}\right)^{mt}$$

where

S = Final value that will be received after t periods.

P = Principal amount (initial investment).

j = Annual nominal interest rate (not reflecting the compounding and as a decimal i.e. if interest is paid at 5. 5% pa, then it will be 0. 055) (it should not be applied in percentage).

m = Number of times the interest is compounded per year (i.e. for monthly compounding n will be 12, for half year compounding it will be 2 and for quarter it will be 4)

t = Number of years the money is borrowed for.

As an example, suppose an amount of 1500.00 is deposited in a bank paying an annual interest rate of 4.3%, compounded quarterly. Then the balance after 6 years is found by using the formula above, with P = 1500, j = 0.043 (4.3%), m = 4, and t = 6 as

$$S = 1500\left(1 + \frac{0.043}{4}\right)^{4\times 6} = 1938.84$$

$$S = P\left(1 + \frac{j}{m}\right)^{mt}$$

www.thebalancesmb.com › ... › Business Math

INTRODUCTION TO ISLAMIC BANKING

Islamic Banking signifies banking activity that is consistent with the principles of Sharia and its practical application through the development of Islamic Economics. As such, a more correct term for 'Islamic Banking' is 'Sharia compliant finance'.

Sharia prohibits acceptance of specific interest or fees for loans of money (known as Reba, or usury), irrespective whether the payment is fixed or floating. Investment in businesses that provide goods or services contrary to Islamic principles (e.g. Pork or Alcohol) is also considered haraam ("sinful and prohibited"). Although these prohibitions have been applied historically in varying degrees in Muslim countries /communities to prevent un-Islamic practices, it was only in the late 20th century that a number of Islamic Banks formed to apply these principles to private or semi-private commercial institutions within the Muslim communities.

Islamic Banking Products:

- Bai' al 'inah (sale and buy-back agreement)
- Bai' bithaman ajil (deferred payment sale)
- Bai' muajjal (credit sale)
- Mudarabah
- Murabaḥah
- Musawamah
- Bai Salam
- Hibah (gift)
- Istisna
- Ijarah
  1- Ijarah thumma al bai' (hire purchase)
  2- Ijarah-wal-iqtina
  3 - Musharakah (joint venture)
- Qard hassan/ Qardul hassan (good loan/benevolent loan)
- Sukuk (Islamic bonds) Takaful (Islamic insurance)
- Wadiah (safekeeping)

[https://en.wikipedia.org/wiki/Islamic_finance_products]

Islamic View of Riba (Types of Riba)

Riba Al Fadhel - Reba Al Nasea'ah

Riba Theory

There are two types of Riba discussed by Islamic jurists: an increase in capital without any services provided and speculation can be roughly translated as "Usury". Riba is forbidden in Islamic economic jurisprudence (fiqh) and is considered as a major sin. Simply defined, it implies unjust gains in trade or business, generally through exploitation.

While the term "Riba" is often equalized as "Interest" by many, the Qur'an described "Riba" as a general term, that is not limited to the financial standards only.[https://www.investopedia.com] An excerpt from Surat Al-Baqarah from Ayah 275 stated " Those who consume interest cannot stand [on the Day of Resurrection] except as one stands who is being beaten by Satan into insanity. That is because they say, "Trade is [just] like interest." But Allah has permitted trade and has forbidden interest. So whoever has received an admonition from his Lord and desists may have what is past, and his affair rests with Allah . But whoever returns to [dealing in interest or usury] - those are the companions of the Fire; they will abide eternally therein." [https://quran.com/2/275]

بسم الله الرحمن الرحيم

الَّذِينَ يَأْكُلُونَ الرِّبَا لَا يَقُومُونَ إِلَّا كَمَا يَقُومُ الَّذِي يَتَخَبَّطُهُ الشَّيْطَانُ مِنَ الْمَسِّ ۚ ذَٰلِكَ بِأَنَّهُمْ
قَالُوا إِنَّمَا الْبَيْعُ مِثْلُ الرِّبَا ۗ وَأَحَلَّ اللَّهُ الْبَيْعَ وَحَرَّمَ الرِّبَا ۚ فَمَن جَاءَهُ مَوْعِظَةٌ مِّن رَّبِّهِ
فَانتَهَىٰ فَلَهُ مَا سَلَفَ وَأَمْرُهُ إِلَى اللَّهِ ۖ وَمَنْ عَادَ فَأُولَٰئِكَ أَصْحَابُ النَّارِ ۖ هُمْ فِيهَا خَالِدُونَ -
2:275

TERMINOLOGIES

Credit Limit	The maximum amount of credit that a financial institution or other lender will extend to a debtor for a particular line of credit.
Interest	The rate at which interest is paid by a borrower (debtor) for the use of money borrowed from the lender (creditor).
Bank Charges	The additional fees to be paid on the account towards delays to the payment settlement date.
Outstanding Balance	The amount of money owed/due, that remains in a deposit account (or a loan account) at a given date, after all past remittances, payments and withdrawal have been accounted for. It can be positive/asset (in the balance sheet of a firm) or negative/ liability.
Overdue	The amount has passed the due date and remains unsettled.

Over Limit	The amount exceeding the limit allowed by the creditors.
Principal Outstanding	The balance/remainder amount of the facility given (at a certain date).
Penalty Charges	The charges added on the account due to nonpayment on the due date.
Payoff amount	The total amount to be paid at a certain date, this would include interest and charges.
Buy out loan	Transfer of the loan/facilities from one bank to another bank.
Reschedule	The rearrangement to change the payment amount either to increase/reduce the loan tenure (could be done to capitalize the overdue interest and/or restructure the overdue amount).
Buckets	The overdue stage either to be calculated by the number of days the payment is overdue by or the number of instalments overdue.

Write Off	The amount decided to be removed from provision accounts as total loss as per central bank regulations.
Charge Off	The decision to stop adding further charges on the account.
Accruals	The amount that has been calculated but not yet added on the outstanding.
Early Settlement	Settlement of the outstanding loan before the facility maturity date.
Securities	The collaterals linked to the facilities to guarantee the payback.
Guarantor	The person standing as guarantor for the finance should the main person discontinue payments due to cashflow issues or other reasons.
Risk	The potential of losing something of value, weighed against the potential to gain something of value.

Liability Certificate	The acknowledgement letter issued by the financier stating the payoff amount.
No Liability Letter	Letter issued by the financier certifying the settlement of liabilities.
Legal Notice	A letter issued by the POA holder as a notice before taking legal action,
Standing Instruction	A standing order (or a standing instruction) is an instruction a bank account holder ("the payer") gives to his/her bank to pay a set amount at regular intervals to another's ("the payee's") account. The instruction may also be known as a banker's order.
Settlement Proposal	The offer provided by the customer for arranging the settlement of debts.

https://www.helpwithmybank.gov/dictionary.``

(A-2) Resources / Source of information

The first stage of the three-common collection cycle (Tracing – Contacting – Collecting) is dependent on the resources. Tracing un-contacted or skipped customers requires a wide list of contacts and resources to gather as much information as a collector possibly can, regarding the customer's whereabouts. This would not imply that the collectors who do have resources, would always succeed. It does, however, emphasize the need to update and maintain records on timely basis so that the required information can be accessed at the time of need.

Sources of information that can be made for the collectors to trace skipped customers.

- White and Yellow Pages Social network (Facebook; Instagram; Twitter; LinkedIn (and other recruitment web sites).
- Official departments (Etisalat; Water and Electricity Dept.; Land department; Traffic Dept.; Immigration, Labour Office)

- Old Employers and references from the job application.
- Mapped cases.
- Emails and web pages.

Collection Process

- Under Tracing – Internet, Employer, Immigration & References.
- Contacts - Over the phone & Field Visits.
- Collection - Early settlement & monthly installments.

Customer Tracing through:

a. Neighbors especially children – Ascertain information on the employment, schools attended by the children, school timings, general time of the day when the person may be available at their residence, vehicles owned and any other information relating to the duration of the present residence and previous whereabouts, if known.

b. Landlord: Building Security - They are generally helpful & understanding and are also aware of the routine.

c. Employers: Co-workers – Daily interactions with the skipped customer could reveal certain information always.

d. Friends: Relatives – Be friendly and empathetic which could prompt them to give any information they are privy to.

e. Police & Traffic Dept. – Telephone Directory.

f. School Supervisors: They would be aware of change of residence, if any.

g. Guarantors – If applicable.

h. References from job application.

i. Enquire on additional information by paraphrasing questions such as:

a) Office, residence, cellphone numbers.
b) Usual timings of attending, leaving from the office.
c) Timings of returning home and sometimes also the sports/social outings maintained by a person.

d) If none of the above information is available, leave the contact name and number while accentuating upon the urgency of the situation.

External process

(Field calls/visits; External Collection Decision; Outdoor Visits Decision)

ii. The decision to utilize the services of the external debt collector should be based on expenses incurred, applicable in the cases where the delinquent customer skips and/or the collectors are unable to take any further action through telephone calls or letters especially when the customer has failed to previous payment commitments.

iii. Prior to taking the decision of handing over the account to an outside collector, it must be established that sufficient attempts have been made to reach the customer by phone/mail and that the risks involved with the outstanding dues is large enough to warrant the expense of the outside collectors.

iv. The benefits of conducting visits to a delinquent customer which entail face to face contact with the customer, can assist the collector to discuss (within authorized parameters) alternative payment options. This would be advantageous in educating the customer on his/her obligations & to make a physical check on collaterals or on the stated purpose of the loan. The requirement for field visits is mandatory in the scenario where the payment would not be settled otherwise.

v. The route planning should be done prior to the external collector starting his visit. (Collection managers should periodically conduct joint visits to measure the external Collectors' efficiency).

vi. The above statements detailing the process of collection through personal visits in an organized & scientific manner provides some constructive guidelines based on which the external collector can make his activities more structured, meaningful, and eventually successful.

vii. External debt collectors should focus primarily first on the principal borrower before initiating contact with the guarantors, where applicable.

External Collector Ethics:

1. Maintain a healthy relationship with both the client and the debtor.
2. Cultivate inner confidence to handle possible scenarios as may arise and achieve the desired outcome.
3. Display an attitude of compassion towards the debtor and his liabilities.
4. Explain that anything short of a full payment, is a rare exception.
5. Elaborate on the policies and procedures.
6. Convey a friendly, yet firm approach.
7. The debt collector's attire and tenor of voice represents the client. Dress smart, converse in a polite tone.

8. Avoid deviations to topics which are not related to the visit.
9. Obtain a post- dated cheque, this increases the possibility of debt settlement.
10. Change and adopt tactics, as is applicable to the situation.
11. Be flexible, each circumstance is different.
12. Stay firm, focused, positive, and creative. Be a problem solver.
13. The primary approach should aim at debt resolution without recourse to legal action.
14. Do not threaten, unless legal & intended.
15. Ensure the debtor reads and confirms acceptance of the agreement in writing.
16. Before proceeding with a new settlement schedule / arrangement, be certain that the customer would be able to meet the payment obligations. Evaluate the customer's capacity & willingness to pay.
17. Do not make promises that would not be fulfilled, e.g. waiving of penalties, incumbent fees/charges.
18. Remind the customer regularly that the creditor/financial institution possesses the moral & legal right to recover the loan.

19. Establish credit repayment as a high priority in the customer's mind.
20. Evaluate the financial situation and suggest alternative financial resources for payment to the delinquent account.
21. Motivate the debtor by commending upon settlement of every overdue payment, make them feel good about repayment.
22. Help the customer to retain his/her self-respect.
23. Use persuasive approach, not informative.

(A-3) Job Planning

Planning daily tasks is an important element to achieving stipulated targets and deadlines and would lead to optimum result on the time and efforts spent. Planning in debt collection entails practical thinking, to understand the sequence of the events, and to take the right decision at the right time.

Commonsense is of the essence to set up a work plan in the debt collector's queue of tasks at hand.

Planning work process

1. Comprehension of the nature of works which fall under the responsibilities of the debt collector and selection of the most effective approach in dealing with each set of situations.

2. Maintain a proper work log by recording dates of receiving the allocation and the expiry date, work toward the time frames and aspire for a timely closing of the deal.

3. Study the cultural backgrounds of debtors; the product type of loan facility i.e. credit card, personal loan etc.; the upper and lower lines of each debt, these would be extremely beneficial in the negotiation process.

4. Maintain separate folders for Skip Cases and in-Town Cases as each would require a different negotiation approach and the tracing process involved therein.

5. Cases Underbracing – Group allocation for new data on customers' whereabouts, established direct contacts, contacted group, promise to pay group and the broken promise group.

6. Determine the number of cases that can be handled in a day, customer grouping (based on above allocations) and the number of actions to be carried out based on the outcomes. This practice of working on a daily target contributes to a higher rate of success.

7. Prepare a monthly target which would be in line with the department's set targets and formulate the plan for achieving the required goals.

8. Strive towards external field visits and internal customer meetings compared to telephonic follow-ups, meetings held in person have a higher rate of success in debt recovery.

9. Maintain a regular, disciplined follow-up procedure on the proposed settlement plan and client response. Ensure that this follow-up procedure is documented on a daily basis as this would be vital in negotiations and legal action (if required).

By following the outlined procedures, the debt collector would accomplish individual and team targets in a time and cost-efficient manner.

B. CORE COMPETENCIES FOR A COLLECTOR

1. <u>Personality Skillset:</u>

- Ability to work efficiently despite pressure of targets and deadlines.
- Calm, rational thinking, sound leadership qualities and ability to switch between various levels of behavioral mannerisms, as demanded by the situation.

- Adopt a harmonious relationship with colleagues and with inter-departmental personnel.
- Consistently function with a teamwork mindset.
- Flexibility of working extended hours when the circumstances necessitate.

B. Communication Skillset:

These can be considered as the bridge to establish customer rapport and build trust channels. Developing a bridge of trust and comfort zone with the customers is the key factor in controlling the attitude and response in the negotiation zone.

(B-1) Body language

Body language is the action and resultant reaction from both sides during the negotiation process.

a. Action from the speaker to convey in a lucid manner, yet meaningful and persuasive.
b. Reaction from the listener for interpretation of the subject matter heard.
c. Upon receiving the feedback, the debt collector's display of compassionate, but firm body language.
d. The debtor's body language during the negotiation process.

The body language displayed by the debt collector along with the words used, sends a combined message to the debtor and in return, the body language of the debtor is a strong feedback on how the debtor perceives the message.

To comprehend the body language messages (i.e. action-reaction), let us understand the constituent elements i.e. the human receiving system (receiver), and the three ways of receiving information through the human receiver.

Types of Communication

Every human being could be either, predominantly one of the three types or a mixture of the three.

1. Visualizing person - One who receives the information as a visual impact and stores as images in his sub-conscious mind and then immediately converts them to those prestored images upon hearing something which resonates with them.
2. Auditory person is a person who can receive information through his/her reception system as audio waves and store the same at a deep level in his/her sub conscious mind.
3. Kinesthetic person is a person who can receive information through his/her 3 senses (Smell, Touch, Taste).

Methods of ascertaining the second party's reception system.

a. By the movement of the eyes while accessing cues.
b. Speed of communication.
c. Breathing – whether shallow or deep.
d. Voice tonality.
e. Head balance.
f. Mind reading – combination of the above factors.

	Visualizing	Auditory	Kinesthetic
Eyes accessing cues	Looking above the horizontal line.	Looking equal to/at the horizontal line.	Looking under the horizontal line
Speaking	Faster and louder than others.	Speaking less and listening more with concentration	Speechless/ Quiet – feeling the meaning of words heard.
Chest – deep / shallow	Using the upper part of	Using up to the middle of	Using the full chest,

	the chest, fast breathing	the chest, medium breathing	deep breathing
Head Balance	Straight and up, moving head along with the body.	Moving both sides while listening – to the left side of the brain if left-handed and to the right side, if right-handed.	Moving both sides under the horizontal line, according to the thinking part of the brain while listening/ speaking and displaying emotional reaction.
Way of thinking and	If right-handed, the left part of the	If right-handed the person while	If right-handed the person will

storing information	brain will be the thinking part. The person will look at the high left side while thinking and the right part will be the subconscious mind for storage of the photos received so the person will look at the right side to retrieve the facts and memory.	thinking will maintain the eyes in the horizontal line, towards the left ear for recording and will move the head towards the left ear for replaying the recoded information from subconscious mind and vice versa.	look at the left side under the horizon towards the heart to feel the meanings and to towards the right side to recall the stored feelings.

Every person is a combination of these sensory features, rarely would there be a person displaying 100% of one behavior type. However, their main characteristic can be distinguished by their prominent leaning towards one behavioral trait, compared to the others.

For effective usage of body language skills and to establish a good client rapport, the debt collector should determine the second party reception system from the above list, and then modify the body language in line with the feedback received from the debtor. This practice would be significant in the debt resolution process.

(B-2) Linguistics

While the ability to speak the same language plays a key role, it should also be considered important to use an accent/speaking style that can be understood by the second party. The manner of speaking combined with the proper tone can help to reduce the gap caused while communicating over the telephone. In situations where a face to face conversation is not possible, the emphasis on proper delivery of words, in the right tone, can create a visual image for both the parties and allow for a smooth and result oriented dialogue.

Types of communication

I. Face to face communication – This form of communication is the preferred medium for any debt collector. The advantage of meeting in person allows for full visual contact, monitoring body language of the debtor and responding in a manner that ensures higher probability of debt settlement.

II. Telephonic communication - In this medium of communication, the emphasis on the tone and pitch of the voice is heightened. It is necessary for the debt collector to continuously modify his approach based on the feedback from the debtor. Also, the debt collector needs to ensure the tone of the voice should be facilitating the visual image generated in the mind of the listener. The possibilities of further negotiations in person are greatly enhanced when the telephonic conversation is efficiently handled.

The tone of the voice holds 38% weightage in any conversation.

Voice Modalities

- Pitch of voice - From low to high → indicators of anger, stress, tolerance.
- Speed of speaking – Indicators of mental state → nervous, insecure, impatient, anxiety.
- Delivery of speech – Whether making a statement or asking for confirmation.

A perfect voice always incorporates the factors of tone, speed, delivery of speech, words per minute, which contribute to the trust and confidence in managing the debt settlement process.

(B-3) The Art of Listening

The word listening can denote a variety of things – listening to understand but not reply; listening to allow the second party to vent their worries. Listening, as commonly thought, does not imply simply hearing the words, rather it requires maintaining a visual contact, and observing the body language. It is a significant part of creating and strengthening customer rapport.

Majority of people love to hear themselves speak, but between hearing and listing, the debt collector should always strive to listen rather than hear.

> ***Hearing is** a physical sense to catch the wave of sound and transfer the waves to the brain.*
>
> ***Listening is** to hear, think, understand, and acknowledge via body language to create rapport with the speaker.*

Active listening:

Active listening needs to be reflected by the entire body language:

i. Maintaining eye contact shows attention, interest and understanding.

ii. The tone and body language comprises 90% of the way in which the message would be interpreted and while 28% is the choice of words selected to convey the message.

iii. Head gesture is a supportive tool while negotiating:

→ The encouraging nod – "Yes, Go Ahead."

→ The acknowledgement nod – "I am still listening."

→ The understanding nod – "I see what you mean."

→ The factual nod – "Yes, its correct."

→ The agreement nod – "Yes, I agree" Or "I will do."

Absence of head gesture can oftentimes be perceived as lack of interest in the speaker or the conversation.

Pace of head nods:

a. Slow head nod - Encourages to continue the conversation.
b. Slightly faster head nod – Displays an interest in the conversation.
c. Very fast head node – Total understanding or intending to interrupt the conversation.

(B-4) Negotiation

Fortified with the Product Knowledge & Communication Skillset, the next stage involves learning and practicing negotiation skills.

To understand the right meaning of negotiation, it is necessary to understand the difference between a meeting and a negotiation.

Meeting with a group of people/individuals is conducted to arrive at a decision with pre-defined goals/agenda, the contents of which are available to all concerned parties. For e.g. Meeting of Collection/Sales department to review the targets, progress etc. In a meeting the tone of the discussion can vary due to different thought processes, but the conclusion remains the same – working towards the achievement of targeted goals.

A meeting entails finding common grounds between differing mindsets; adjusting work processes and achieving stipulated objectives. It would prove to be highly productive if the following two measures are implemented:

1. Prior to the Meeting
   - → Gathering relevant information.
   - → Understanding the nature of work required.

→ Identifying the personnel skilled for that activity.
→ Setting milestones for each team/individual.

2. During the meeting:
   → Establishing rapport.
   → Sharing the information/resources.
   → Streamlining the work process.
   → Limiting the discussion to the subject matter at hand (avoiding deviations).
   → Summarizing key agreements and ensuring a regular update for all concerned with milestones achieved.

Negotiation is between two parties having different goals, application of different strategies e.g.: while negotiating with a defaulter, the goal of the debt collector would focus on settlement of overdue payments through continuously changing strategies, whereas the goal of the debtor would focus on avoiding / delaying the payment and sometimes even denying the existence of any overdue loan.

Always aim for a mutually satisfactory outcome, rather than a victory.

As with a meeting, the process of negotiation also requires practice of two measures:

1. Before the negotiation:
   - → Gathering required information.
   - → Studying the nature of the lending product.
   - → Planning the proposal including the authorized limits.

2. During the negotiation:
   - → Establishing rapport
   - → Maintaining clarity about the outcome required and the substantiation/proof for the same.
   - → Framing the negotiation as a collective search for the solution.

→ Clarifying major issues and obtaining agreement on the overall framework.

→ Breaking down the outcome to identify areas of most and least agreement.

→ Starting with the easier segments, building understanding, and then proceeding to tackle the tougher areas.

Five Essential Steps to achieve a Successful Negotiation:

1. Maintain control over self-behavior.

2. Acknowledge the debtor's state of financial affairs and concerns.

3. Never reject BUT rephrase.

4. Give a chance to the other party to save face and feel the victory.

5. Formulate the proposal in a manner which would make the debtor obligated to settle the payment. Make it hard for the debtor to say no.

(C-1) Diplomacy (Savoir-faire)

A diplomatic conversation implies using tact/diplomacy in the words, action, and body language used to convey the message to the second party. The communication is conducted in a manner that is not interpreted in a negative aspect by the debtor.

For example:

If the collector uses **"You do not understand"** – debtor reaction **"What do you mean, am I stupid?"**

Here the collector should rephrase his sentence to "**The matter does not seem clear to you"** Or **"Let me try to explain things in a clearer way."**

It is always possible to convey the desired message by tactful selection of words utilized.

Instead of ----- "You are careless" → Say "You are inactive in your debt settlement approach."

"You are a liar" → Say "It seems that you are not telling the truth."

Use related examples or stories to convey your intended message in a subtle, indirect manner. E.g. *(Now I remembered the story of the rabbit that had been killed by the lion)*

NLP (Neuro linguistic Programming):

NLP is the ultramodern style of management which can be applied to all aspects of life using Metaphor Models. The range of areas it covers are diverse: from Leadership & Coaching, Management & Decision Making to Negotiation Skills and has also proved successful in treatment of some conditions such as phobias, etc.

The implementation of Neuro-Linguistic Programming in Debt Negotiation requires the following key points:

- Understanding the Customer

Every individual has a different manner of hearing/absorbing, assimilating, and reacting to information as we have learned previously i.e. Visualizing, Auditory & /or Kinesthetic. Any significant progress that a debt collector aims to accomplish is dependent on identifying this key factor first.

- Building a rapport.

  The debt collector should observe the communication style of the debtor and converse in a manner that the debtor can relate to. The body language, display of compassion/empathy should be genuine to allow for a swift resolution of the debt situation. There should be a willingness to accept mistakes, be it by the debtor or the debt collector and an approach should be adopted which acknowledges the problems faced and highlights the steps required for settlement of the matter.

  The debt collector should refrain from using the word "But" as this creates a feeling of negativity to the entire *situation and the customer starts to avoid any further interaction, even if it were to be mutually acceptable.*

- Modification of the Customer Understanding Model

  There would be a gap, inevitably, between both the parties due to the conflict of interests & goals. Both the sides would adapt strategies focusing on their own desired outcomes. Hence, it is very necessary for the debt collector to cultivate an understanding and rapport by practicing the following:

  a. Identify the behavior or response to be changed as per the situation.
  b. Establish communication with the V-A-K-(Visualizing, Auditory, Kinesthetic) part responsible for the customer's behavior.
  c. Separate debtor's intention to settle from the behavior displayed if these appear to be contradicting.

d. Explore alternative financial options of meeting the settlement proposal, jointly with the debtor,
e. Separate the person from the problem.
f. When it is unavoidable to use the word "But", prefix it with Yes, i.e., Yes, But!

Collection is a very vital element in any organization. The success & profitability of this department is directly proportional to the professionalism & dedication practiced by the Debt Collector to the assigned duties and deadlines.

Part Two

Establish of Debts Collection Agencies

1. HISTORY OF DEBT COLLECTION AGENCIES IN THE MIDDLE EAST

Debts collection agencies are the shield and sword for the banks and financial institutions.

Back in 1995 when the banks and financial agencies had no centralized collection department, the collection and follow-up works were carried out by their in-house customer service or sales team and each branch had their own collectors. This methodology created a negative impact in debt collection and customers' relation.

A year later, banks started with the process for centralization of collection departments. They recruited and trained specialized collectors using professional debt collection systems and with proper recovery procedures and policies.

The age of the first debt collection agency in the United Arab Emirates is 19 years, it was established in 2001 under the name of HKDC, where the founder made huge investments and efforts to create the new industry of collection agencies in the UAE. I was recruited by the company as the Head of Collection and my colleague Mr. Atef Al Wardany was hired as the General Manager from the HSBC Collection Department.

It took several years and dedicated efforts by HKDC to convince banks and financial institutions to conduct business with a Third-Party Collection Agency and provide the financial and personal information related to their debtors. This trust was consistently developed on the basis of providing secure business atmosphere, data protection, code of conducts, code of ethics, and adherence to the clients' policies and procedures.

After the success of HKDC in creating this Debt collection industry, new followers began to imitate the core business practices of the Debt Collection market leader that helped them to succeed, whereby in a relatively short duration, the collection market had 4 big companies in additional to HKDC, the market leader.

In UAE by 2005, the lending market had begun to boom rapidly and banks had stretched their lending policies, created new financial products and services for salaried and self-employed people in retail banking that created high demand on debts collection companies which by then were oversized, in terms of agencies operating and employees recruited. This surge in debt collectors was also attributed to the increasing numbers of multinational companies setting up their offices in the region.

Investments in real estate in UAE led to a demand in the retail banking sector, customers were encouraged to avail loan facilities to pay the down payments for developers and they would avail mortgage loans through other banks. Usage of credit cards soared as the debt ratio kept increasing manifold, in comparison, to the income earned.

Since the financial crisis of 2008, the value of mortgaged collaterals diminished by a considerable percentage, job cuts increased due to restructuring/redundancies in an effort towards to cost reduction by corporate firms. High number of expatriate communities who lost their jobs began returning to their home countries without informing or making prior arrangements with the lenders; the rate of defaulters amplified dramatically and the demand for debts collection agencies was more than in previous years. The debt collection sector had many newcomers in the market with both domestic and international agencies established exceeding the actual demand. Market share was distributed over a large numbers of agencies, this resulted in situations where the same debt recovery case was rotated among different agencies, the competition challenged the sustainability factor and while the clients imposed additional rules and regulations, the collection agencies started to offer lower rates at higher facilities, just in a bid to survive.

To add to this, the clients decided to maintain in-house teams for written off and hardcore cases to reduce the cost of hiring external collection agencies. They did this by maintaining the freshly written off cases for additional 2 years, <u>at least</u>, before allocating them to agencies. This criterion of retaining extended to certain lending facilities/products offered to nationalities from whom they anticipated higher possibilities of recoveries.

It is the right of every client to reduce their outsourcing costs and expenses while simultaneously providing job security and stability for their own employees, though factually speaking, the existence of debt collection industry originated with the need to reduce financial risks/provision write-offs for financial institutions and corporate firms. The impact of the internal corporate decisions will, eventually, weaken the debt collection industry. Professional, reputable firms will disappear as they cannot compete with the cut-rate amateurs in the field and soon, the banks and financial institutions will suffer again from the want of dedicated and staunch collection agencies.

After the financial crisis of 2008, the next major impact has come in the form of the Corona Virus COVID-19 challenge, an unforeseen event which has seen major businesses shutdown, job cuts due to the working from home scenario which is not feasible for every firm due to huge monetary implications. The rise of defaulters has increased again with the lack of jobs/redundancies, reduction of salaries leading to settlement delays in the current financial situation. This is the time for financial institutions to strengthen themselves by liaising with the debt collection industry or witness the disappearance of their external professional defenses altogether.

2.THE METHOD OF ESTABLISHING A DEBT COLLECTION AGENCY

Debt collection agency is a profit organization which requires three components for a successful operation, i.e. Capital, Management, Human Resources, and the fundamental factor of ***business opportunity***.

1. Capital:

A major requirement of establishing any business, it is calculated based on the feasibility study of the business and includes the following:

a) Establishment expenses:

- Vehicles, Office Fit-out/Interior Design.

- Software related to Debt Collection System and Internet Sites; Hardware related to the Network and their Licenses.
- Land Lines, Internet, and Telephone equipment.
- Trade Licenses and Immigration Fees.
- Tools and stationery.
- Medical and Professional Insurance.
- Marketing budgets.

b) Cash flow:

- Reserve amount to cover, at least, six months of operational expenses from day Zero.
- Additional amount to cover potential expansion in terms of employees and related costs incurred (including Visa/Immigration fees) as per the Feasibility study.

2. Management - A team of managers handling the following areas.

1) Marketing:

- Create strategies by collecting market information and launching marketing campaigns.
- Hire designers for creating the agency website and presence on social media platforms with high visibility e.g. Facebook, Instagram, LinkedIn, Google Ads, etc.
- Formulate marketing plans to ensure inflow of clients and to increase market share of the company.

2) Operation and IT technology:

- Recruit an extensive workforce of Qualified Team Leaders.
- Manage allocation and work queues.

- Manage company's financial performance and clients' targets.
- Monitor daily performance and status of target achievement.
- Handle communication with clients and prepare settlement proposals.
- Resolution of customer complaints through diligent problem-solving.
- Managing meetings with customers and systematic updating of progress.
- Finding tools of tracing skipped customers and Legal action.
- Quality control and policy implementation.
- System updates and maintenance of customer records.
- Network maintenance and software upgrades.
- Call recording and code of contacts.

- Control data center protection and documents storage.
- Feedback reports and MIS analysis.

3) Accounting - The heart of a business' success:
    - Prepare and monitor daily transactions.
    - Reconciliation of monthly bank statements.
    - Regular check on control account receivables and invoices submitted.
    - Preparation of collectors' commission and incentives.
    - Processing VAT return reports and ensuring timely payments.
    - Efficient control on the expenses and check on petty cash custodianship.

- Preparation of Financial statements and Balance Sheet for higher management's review.

4) Human Resources - The asset of collection agencies as it shoulders the huge responsibility of consistently uplifting the morale and mindset of its employees who are expected to perform optimally despite heavy pressure and deadlines.

    - Preparation of recruitment policy and Job description.
    - Training program for new employees on all required fronts, i.e. Law, Operation, Negotiation, Communication, Self-esteem.
    - Review employees' annual leave and ensure adequate replacements.
    - Medical insurance and healthy work atmosphere.
    - Hunting for new potential candidates who can be of asset to the company while safeguarding the interests of the existing employees.

5) General Manager – The driving force of the entire organization

- Professional, qualified with sound management experience.
- Knowledgeable pertaining to the various departmental functions.
- Excellent in Strategic thinking and a clear vision for the company's growth.
- Ability to align perspectives with market fluctuations and managing channels of competition effectively.
- Agile mindset to formulate alternative strategies in tough situations i.e. Plan B.
- Adept in new technologies with changing markets.
- Motivational speaker to boost team performances.
- Innovative and tactful approach to increase agency's clientele portfolio.

- Focus on achieving stipulated financial targets and profit margins.

6) Business opportunity – While the above factors are essential for any debt collection agency, the main, yet commonly overlooked, factor is that of Business Opportunity. Market research/ analysis and evaluation of opportunities is the fundamental criteria for the sustainability and profitability of any enterprise. This business opportunity factor could consist of:

   - Seeking out prominent clientele with strong number of cases which can cover for the initial operational costs.
   - Instead of recruiting employees with banking sector experience, it would be beneficial to hire people with a background in debt collection and good contacts from previous work experience.
   - Managing the business with self-efforts rather than depending on people who do not have any financial stake in the agency and therefore would not be as

keen in continuously searching for business opportunities or in ensuring the performance of the agency is in line with the required profit margins.

- Buying out an existing successful company with its workforce and clients can also be termed as a good business opportunity.
- Gaining specialization in lending products gives a competitive edge and attracts more clients, especially when being the only debt recovery agency in a region is not possible.
- Constantly assessing the viability of the business and investing in training programs to create a strong, dedicated set of a professional workforce.

Establish the debt collection agency after evaluating business opportunities; when established ensure that it is a teamwork process, not a one-man show where the agency could be vulnerable to the individual's loyalty, dedication & commitment.

3. OPERATIONS OF A DEBT COLLECTION AGENCY

A. Operation structure:

1) Operation manager/Head of collection.
2) Team Leaders/ Team Supervisors.
3) Collectors.
   - Collection calls/contact staff maintaining feedback on both incoming & outgoing calls.
   - Tracing teams.
   - Field visit teams.

B. Teams

1) Product wise team (Credit Card/Personal Loan/Auto Loan/Corporate Loan)
   - Bucket wise.
   - Area wise.
   - Nationality wise.

- Vantage wise
- Ticket size wise.

2) Client wise (Client A/Client B/Client C etc.).
    - Product wise
    - Bucket wise

C. Allocations

1) Collector capacity
    - Buckets - 300
    - Write off - 500
    - Tracing - 200
    - Field visits – 120
2) Collector targets in amounts.
    - Bank target (total client target divided by number of collectors handling the client).
    - Agency target (cost + margin) (Equally important as the client target)

3) Collectors target as action.

This target varies from vantage and products. First on bucket and on W/off per day.

- No. of attempts - average B = 80 & W 50
- No. of contacts (direct to customer) - average B 30 & W 12
- No. of promise - B 15 & W from 4:8 based on vantages.

The above is the standard practice but in reality, it should vary from one client to the other, based on the quality of data provided and the validity of information given.

Collection Target

This would be the most challenging area for any debt collection agency. This is the main benchmark for measuring the success of any company and appraising the outcome of diligent/effective performance of the collectors.

Target achievement is the reflection of the skills of the collectors in all areas encompassing the tracing, contacts, and negotiation processes. It is also the decisive factor for the incentives/bonus and commission for the entire teams and the individual debt collector. The performance appraisals use this criterion in employee evaluation and in deciding whether to retain or not an employee.

- Target should be logical, measurable, and realistically achievable.
  - → Logical in terms of number, ticket size, vantages of cases, and information availability.
  - → Measurable in terms of the amount of money collected in relation to written off cases or amount of provision written back or resolution for buckets.
  - → Achievable in terms of nature of the case; should not be an exaggerated value but should be evaluated on the basis on historical results.

Client Target

Clients Target is the target requested by the banks or corporate clients as per their internal budgets and cash flow forecasts. It could be, generally, calculated as a percentage of total number of portfolios assigned to the agency.

Agency Target

Agency target is the target to be achieved for cover the hiring and maintaining cost of collectors plus the profit margin for the company. Cost of collectors is the total overhead cost allocated to the collector as cost center expense. The collector is considered as a profit center after the realization of profit margins through achievement of deadlines.

3 Areas of Target Allocation: for the individual collector, clients' teams, and the debt collection agency. Here the target implies target as costs/expenses, collector's target, and

client targets. Implementing the methods of cost accounting there are 3 groups:

Group A.

→ General administration expenses (on a monthly basis) except salaries which includes Fixed Costs and Variable Costs illustrated in Table (1)

Monthly rent	5,000.00
Water & Electricity	4,000.00
Telephone & Internet	8,000.00
License fees	2,000.00
Medical insurance	2,500.00
Immigration Fees	4,000.00
Entertainments	1,000.00
Stationary	2,000.00
Marketing	1,500.00
Miscellaneous exp.	1,200.00
Total	**31,200.00**

Table (1)

The Fixed Costs are paid regardless of the volume of operation, even at zero production, i.e. Rent, License Fees, Medical Insurance, Immigration Fees & Marketing).

The Variable Costs are costs incurred due to the operating and consumption charges e.g. Telephone & Internet, Water & Electricity, Entertainment expense)

These types of costs should be divided among all cost center based on select criteria for allocation.

Group B:

→ Group of staff providing services to the collectors but not directly involved with the debt collection process. results of collection i.e. General Manager, Operation Manager, HR Manager, Supervisors, Team Leaders, Accountants, Secretary, Drivers, Office Boys, Field Visitors - Group B.

This group will be considered as Cost Center (Services Center) and its portion of Fixed costs in Table (1) will be allocated to them as illustrated in Table (2

<u>Group C:</u>

→ Direct Collectors who are generating income to the agency and the Profit Center will also get its portion of Fixed Costs.

To allocate cost of group A expenses basic salaries will be considered as the cost driver (base of cost allocation) between Group B and Group C.

Staff Name	Direct salaries		Provision ESB	Provision Air Ticket	Fixed Cost	Total Cost of Service Center
	Salary	Leave Salary				
General Manager	8,000.00	666.67	466.67	166.67	3,159.49	12,459.49
External Collectors	1,500.00	125.00	87.50	31.25	5,92.41	2336.16
IT support Team	4,000.00	333.33	233.33	83.33	1,579.75	6229.75
Supervisors & Team Leaders	11,000.00	916.67	641.67	229.17	4,344.30	17131.80
Accountant	2,500.00	208.33	145.83	52.08	987.34	3893.59
Secretary	2,000.00	166.67	116.67	41.67	789.87	3114.87
Administration manager	4,500.00	375.00	262.50	93.75	1.777.22	7008.47
	33,500.00	**2,791.67**	**1,954.17**	**697.92**	**13,230.38**	**52,174.13**

Table (2)

Table 2 illustrates the service staff, total salaries and other expenses involved i.e. monthly provision made towards - annual leave salary, End of Services Benefits, and provision of air tickets. Fixed Costs can also include the provision for Social Insurance premium in addition to the portion allocated for the Fixed Expenses (F).

Accordingly,

Fixed expenses per staff = Total salaries for Group B + Group C = Y

The equation of fixed cost per staff will be F divided by Y Multiplied by the amount of salary for the staff.

For example:

The amount of fixed cost allocated to the General Manager will be:

Total Fixed Cost (expenses) from Table (1) 31,200 and total salary of the company staff will be 33,500 from table (2) + 45,500 from Table (3) = 79,000

Therefore, the amount allocated to The General Manager = (8,000/79,000) *31200 = 3,159.49

Now, to allocate total Service Center to Profit Center Group (C) in order to set each collector's team's target.

<u>Group (C2):</u>

Total Profit Center cost allocation and target assignment

Teams	Staff Name	Direct salaries Salary	Provision ESB leave salary	Provision air ticket	Cost of Operation	Cost of Services center	Total Cost Center	Collection Target as cost	Monthly Collection Target	
Client A	Agent 1	2,000.00	166.67	116.67	41.67	789.87	2,293.37	5,408.24	27,311.62	40,967.43
	Agent 2	2,500.00	208.33	145.83	52.08	987.34	2,866.71	6,760.30	34,139.53	51,209.29
	Agent 3	3,000.00	250.00	175.00	62.50	1184.81	3,440.05	8,112.36	40,967.43	61,451.15
	Agent 4	2,000.00	166.67	116.67	41.67	789.87	2,293.37	5,408.24	27,311.62	40,967.43
	Agent 5	1,500.00	125.00	87.50	31.25	592.41	1,720.03	4,056.18	20,483.72	30,725.57
		11,000.00						23,438.57	118,364.76	177,547.14
Client B	Agent 6	2,000.00	166.67	116.67	41.67	789.87	2,293.37	5,408.24	27,311.62	40,967.43
	Agent 7	2,500.00	208.33	145.83	52.08	987.34	2,866.71	6,760.30	34,139.53	51,209.29
	Agent 8	3,000.00	250.00	175.00	62.50	1184.81	3,440.05	8,112.36	40,967.43	61,451.15

	Agent 9	2,000.00	166.67	116.67	41.67	789.87	2,293.37	5,408.24	27,311.62	40,967.43
	Agent 10	1,500.00	125.00	87.50	31.25	592.41	1,720.03	4,056.18	20,483.72	30,725.57
		11,000.00						23,438.57	118,364.76	177,547.14
	Agent 11	2,000.00	166.67	116.67	41.67	789.87	2,293.37	5,408.24	27,311.62	40,967.43
	Agent 12	2,500.00	208.33	145.83	52.08	987.34	2,866.71	6,760.30	34,139.53	51,209.29
Client C	Agent 13	3,000.00	250.00	175.00	62.50	1184.81	3,440.05	8,112.36	40,967.43	61,451.15
	Agent 14	2,000.00	166.67	116.67	41.67	789.87	2,293.37	5,408.24	27,311.62	40,967.43
	Agent 15	1,500.00	125.00	87.50	31.25	592.41	1,720.03	4,056.18	20,483.72	30,725.57
		11,000.00						23,438.57	118,364.76	177,547.14
	Agent 16	2,000.00	166.67	116.67	41.67	789.87	2,293.37	5,408.24	27,311.62	40,967.43
	Agent 17	2,500.00	208.33	145.83	52.08	987.34	2,866.71	6,760.30	34,139.53	51,209.29
Client D	Agent 18	3,000.00	250.00	175.00	62.50	1184.81	3,440.05	8,112.36	40,967.43	61,451.15
	Agent 19	2,000.00	166.67	116.67	41.67	789.87	2,293.37	5,408.24	27,311.62	40,967.43
	Agent 20	1,500.00	125.00	87.50	31.25	592.41	1,720.03	4,056.18	20,483.72	30,725.57
	Agent 21	1,500.00	125.00	87.50	31.25	592.41	1,720.03	4,056.18	20,483.72	30,725.57
		12,500.00						26,634.73	134,505.41	201,758.12
		45,500.00	**3,791.67**	**2,654.17**	**947.92**	**17,969.62**	**52,174.13**	**123,037.50**	**621,339.38**	**932,009.06**

Table (3)

Table 3 illustrates the allocation of total cost of Service Center to the profit center Group 3 to determine total overheads per collector.

Following the same concept of cost allocation used in allocating Fixed Cost (expenses) to Service Center and Profit Center:

<u>Step 1:</u>

→ Total Cost of Service Center * Agent Salary / Total Profit Center Salaries.

→ **Agent 1 cost of Services Center = 52,174.13 * (2000 / 45,500) = 2,293.37**

<u>Step 2:</u>

The second step is to sum all the expenses and costs assigned to each agent, accordingly total cost for agent 1 will be:

Agent 1 Total cost = Salary + Leave Salary + Provision for End of Service Benefits + Provision for Air Tickets + Fixed Expenses + Cost of service Center.

→ Agent 1 total Cost = 2,000 + 166.67 + 116.67 + 41.67 + 789.87 + 2,293.37 = 5,408.24

This amount is the total overhead for Agent 1 which implies that although his salary is 2,000 only but the costs incurred of Agent 1 is 5,408.27.

<u>The amount to be collected by Agent 1 to cover costs incurred for him, assuming the commission paid by the client he is handling is 20% on collected amount</u>:

Target as cost = Total Agent Cost * 100 / Client Commission Rate.

→ Target as Cost for Agent 1 = 5,408.24 * 100/20 = 27,041.20.

This amount is required to be collected by agent 1 to break even and cover his cost with zero profit for the company is 27,041.20.

However, to pay incentive to Agent 1 for meeting target and not causing loss to the company, we add 1% on the target of cost that is to be paid to the staff achieving Target as cost:

→ Amended Target as Cost = 27,041.20 * 101% = 27,311.41.

→ Amended Formula of Target as Cost = (Total Overhead per Agent * 100/commission Rate) * 101% Slab 1 for the first commission of achievement.

Agency Target

Agency target is the amount to be achieved by each agent. It can be target as cost plus margin i.e. Agency might aim for a profit margin of 50% over the cost of the agent, hence the agency target will be:

Target as Cost * 150% Slab 2 of commission

In the example of Agent 1

→ Agency target for Agent 1 = 27,311.41 * 150% = 40,967.11.

<u>Client Target</u>

The target to be achieved by the agency and it comprises the total number of teams working on the clients' cases. Generally, it would be a percentage of the total outstanding of the portfolio handled by the assigned agents.

If the Client target is more than the company target it might consider Slab 3 for achievement, but if lesser then the company would adjust the target internally to create the third Slab.

In the above example of Agent 1 working for Client A, let us consider that the client's monthly target is an amount of 200,000:

Agent 1 - Client Target Slab 3 would be decided by distributing the Client target among the team using salary as distribution driver:

The formula is:

(Salary of Agent 1 / Total Salary of Client A Team) * Client A target

Client Target for Agent 1 = (2,000 / 11,000) * 200,000 = 36,363.64

Client Target is higher than the monthly Target (agency Target), hence no adjustment would be required.

<u>Commission & Incentive</u>

Commission and Incentive are vital elements to encourage, motivate debt collection staff and are important to analyze staff performance.

Calculation of Commission:

Debt Collection Agent will be entitled for commission only after the debt recovery has exceeded the Slab threshold.

Slab (1) when he/she achieves target as cost – Entitlement → 1% commission on collected amount.

Slab (2) when he/she achieves agency target Slab 1 + Agency margin of profit → 1% up to Slab 1 ceiling + 2% of the difference between Slab1 ceiling to Slab2 ceiling.

Slab (3) when he/she achieves the client's target → Slab 1 ceiling + 2% from Slab1 ceiling to Slab2 ceiling + 3% of the difference between Slab 2 ceiling to Slab 3 ceiling

Refer example of Agent 1

Staff Name	A Coll. Target as cost	B Monthly Coll. Target	C Client Target	D Actual Collection	Comm. slab1	Comm. slab2	Comm. slab3	Total Comm.
Agent 1	27,311.62	40,967.43	45,454.55	55,000.00	273.12	273.12	286.36	832.60

Slab 1 Commission = A * 1% (273.12)

Slab 2 Commission = (B – A) * 2%   (273.12)

Slab 3 Commission = (D – C) * 3%   (286.35)

Total commission = Slab1 + Slab2 + Slab3   (832.60)

This commission can be paid on monthly, quarterly, or even yearly basis. However, it would be advisable to settle commission on a quarterly basis as this would keep the staff motivated, determined to achieve the stipulated targets.

It is better to maintain the cash flow of the company by paying the commission when the invoice is released rather than waiting for actual payments receipt against the invoices.

Table (3) illustrates the 3 Slabs of Target, Target Achievement and Calculation of Commission:

Measure of Agents' performance and Achievement of Target Slabs

Teams	Staff Name	Collection Target as cost	Monthly Collection Target	Client Target	actual collection	% of cost	% of Agency Target	% of Client target
Client A	Agent 1	27,311.62	40,967.43	45,454.55	55,000.00	201%	134%	121%
	Agent 2	34,139.53	51,209.29	56,818.18	52,000.00	152%	102%	92%
	Agent 3	40,967.43	61,451.15	68,181.82	25,000.00	61%	41%	37%
	Agent 4	27,311.62	40,967.43	45,454.55	37,000.00	135%	90%	81%
	Agent 5	20,483.72	30,725.57	34,090.91	40,000.00	195%	130%	117%
		118,364.76	177,547.14	250,000.00	209,000.00	177%	118%	84%
Client B	Agent 6	27,311.62	40,967.43	54,545.45	45,000.00	165%	110%	83%
	Agent 7	34,139.53	51,209.29	68,181.82	20,000.00	59%	39%	29%
	Agent 8	40,967.43	61,451.15	81,818.18	80,000.00	195%	130%	98%

	Agent 9	27,311.62	40,967.43	54,545.45	25,000.00	92%	61%	46%
	Agent 10	20,483.72	30,725.57	40,909.09	90,000.00	439%	293%	220%
		118,364.76	177,547.14	300,000.00	260,000.00	220%	146%	87%
Client C	Agent 11	27,311.62	40,967.43	72,727.27	28,000.00	103%	68%	39%
	Agent 12	34,139.53	51,209.29	90,909.09	82,000.00	240%	160%	90%
	Agent 13	40,967.43	61,451.15	109,090.91	45,000.00	110%	73%	41%
	Agent 14	27,311.62	40,967.43	72,727.27	60,000.00	220%	146%	83%
	Agent 15	20,483.72	30,725.57	54,545.45	150,000.00	732%	488%	275%
		118,364.76	177,547.14	400,000.00	365,000.00	308%	206%	91%
Client D	Agent 16	27,311.62	40,967.43	44,800.00	35,000.00	128%	85%	78%
	Agent 17	34,139.53	51,209.29	56,000.00	60,000.00	176%	117%	107%
	Agent 18	40,967.43	61,451.15	67,200.00	41,000.00	100%	67%	61%

	Agent 19	27,311.62	40,967.43	44,800.00	30,000.00	110%	73%	67%
	Agent 20	20,483.72	30,725.57	33,600.00	32,000.00	156%	104%	95%
	Agent 21	20,483.72	30,725.57	33,600.00	22,000.00	107%	72%	65%
		134,505.41	201,758.12	280,000.00	220,000.00	164%	109%	79%
		621,339.38	**932,009.06**	**850,000.00**	**914,000.00**	147%	98%	108%

Table 4 illustrates the percentage of target achievement for the individual, the teams, and the total agency performance.

On the basis of the above Tables, the following can be inferred:

1- Agent's achievement of Target (as cost) is less than 100% - Monitor, evaluate regularly as the costs to retain agents impacts the cost center. Assess if training and coaching programs can help to enhance their productivity before taking a decision to discontinue their employment.

It is suggested to evaluate agent performance before and after providing training programs, and to issue a warning letter before taking the final decision. It is not necessary that all agents have the same level of skill, talent and most importantly, dedication to their job.

2- Agent's achievement of Agency target is less than 100%, but has crossed 100% of collection towards cost – Considering that the 100% of the cost is achieved but not the agency target, the agent would not be entitled for 2% Slab (Commission) unless they reached to 100%.

However, it reflects that the individual has the potential to excel and should be provided training and motivation to enhance their skillset.

3- Agent's achievement of Agency target and Client targets - The agent would be entitled for full commission of 3% from Slab 2 to Slab 3 without ceiling of payments. The reason for specifying "without ceiling of payments" is because some agencies tend to not pay out the full commission which is a wrong and irrational decision.

Empowering the agent with the security of receiving maximum payout would create a sense of dedication and loyalty to the agency while simultaneously enabling them to improve their lifestyle. This should be the holistic approach for the agency and the agents' well-being.

Collectors Performance & Appraisal

An agent/collector's performance and appraisal can be evaluated on the basis of daily, monthly achievement of targets and the recovery amounts collected. Compensation to the collector based on his/her successful execution of assigned duties should be the right approach of acknowledging the agent's dedication and contribution to the agency, apart from the practice of performance appraisals.

<u>Collectors Performance Report Terminologies:</u>

- Attempts: Amount of follow-up done and updated in the collection software system. This would include the direct activities undertaken by the collector i.e. tracing process, calls, correspondence (emails, SMS etc.).

- Change in the Case Status → from Blank (no action) to Under Tracing.

  Whenever the collector needs to reach out to a third party during the search or investigation, proper precaution should be taken to refrain *from the debtor's financial information to any and all third parties.*

- Number of cases attempted: Total cases handled in a day.

- Contacts: Direct contact/face to face meeting with the defaulters and change of the case status from Under Tracing to contact.

- Promise to Pay (PP): When collector succeeds to obtain a promise of payment from the defaulters.
  The collector should endeavor to obtain PP by convincing the debtor of the obligation to payment and not through coercing/pressure. By utilizing this strategy, the collector gets to know the debtor's intention to pay and efforts taken, i.e. to either give priority to that particular agent

related commitment or break of promise by settling other outstanding dues.

- Broken Promise: When the defaulter does not fulfill the promise to pay.

- Cash Collection: The total amount paid by the defaulters in a collector's queue within a certain period of time.

Collector's Performance as a Target

Setting target on each activity in terms of minimum daily/monthly performance will measure the performance of the collector, reduce the unproductivity element, and allow for opening new cases with a higher potential for resolution. This target would take into consideration the number of attempts, contacts, promises, and promises fulfilled. The supervisors should generate a daily and monthly activity report for effective work management and also for the purpose of performance appraisals.

Team Leader & Supervisors

There is a mixed understanding of these job profiles which should be interpreted as:

Supervisor – A representative of the agency management who oversees the workflow relating to: Planning, Organizing, Coordination & Control etc.)

The decisions taken by the Supervisor are based on the power and authority granted to him/her by the higher management.

Team Leader – An employee selected because of his/her personality, outlook, and the ability to lead a team of collectors in the achievement of the stipulated targets.

The team always looks up to the Team Leader for an environment of trust, faith and leadership that helps them to achieve the individual and team targets.

The primary motivation for a collector is the monetary gains with the resultant increase in self-esteem and there should be a program of incentives, commissions as well as regular salary increments and promotions. This should be the practice for any agency that wants business growth and a happy workforce because eventually everyone performs optimally in an atmosphere of hope and contentment.

Company Code of Conducts and Code of Ethics

Clients, especially banks are enforcing their code of conducts and code of ethics in their contracts with the debt collection agencies. Collection staff should exercise due diligence in handling each client as per the specified code of conduct and ethics and should ensure that the agency's policies are in line with the directives issued by the clients.

Collection Agency Risk and Risk Mitigation.

To understand the real meaning of risk and its mitigation, let us take an example which would make it easier:

Your family makes a request to drive to the coast on the weekend, what are the risks and risk mitigations to be taken.

Risk (Unforeseen events that could occur)	Risk Mitigation (Counteractive measures)
Risk of car break down	Service check prior to travel
Damage to car tyres/flat tyres etc.	Keep a spare tyre
Running out of fuel	Fill up full tank, check locations of fuel stations en route
Driving for long hours	Get adequate rest and sleep before the travel, and also try to include someone in the journey who has a driving license
Getting traffic fines	Drive within speed limits and follow traffic laws.
Getting lost	Install GPS or carry an updated location map

4. TYPES OF RISKS RELATED TO DEBT COLLECTION AGENCIES

Every business undertaking has risk factors, and these vary from industry to industry. Debt Collection agencies, like any other businesses are not immune to these risk dynamics.

Commonly faced risks in Debt Collection agencies:

1- Operational Risks - Entry of incorrect data/information is one of the key risk factors as these are manually processed and subject to flaws. Mitigation – regular checks and quality control.

2- Errors related to unauthorized and unverified approvals.

Mitigation – Clearly document the debtor payment schedule/structure with the amount and agreed dates. Prepare simple, yet precise, settlement proposals that are approved by authorized personnel in writing.

3- Errors related to software/technology and system failures.

Mitigations – Utilization of updated licensed software, 24/7 protected data center, antivirus and fire wall programs, backup and contingency plans, installation of enhanced collection software (in line with clients' required reports and debtor data provided), implementation of maintenance contracts and IT policy & procedures.

4- Risk related to Frauds and Breach of Trust.

Mitigations – Internal Control on Policies and Procedures, Call Recording and CCTV footage, Insurance policy, Right selection of staff, following hierarchy of authorizations, keeping a check on system access (login) and installation of security system.

5- Risk related to collectors pursued for recruitment by competitors.

Mitigations – Recruit collectors after verifying their employment history, sign a confidentiality agreement, offer salaries, increments and incentives in line with market trend (very essential in the case of skilled, professional collectors).

6- Risk related to collector performance i.e. operation errors, collector fraud, breach of trust, customer harassment complaints.

Mitigations – Insurance policies, Internal audits, Code of conduct and, Code of Ethics are the essential safeguards to protect agency reputation and customer relations.

7- Market and Competition Risk

Risk of Market Fluctuations – Change of monetary policies by the government, change of central bank regulations and lending policies, limitations to lending facilities due to market fluctuations by banks and financial organizations.

Mitigations – Clear strategy for commencement of business operations as per market situation, flexibility for agency expansion or reduction with market fluctuations.

Risk of market fluctuations is a major risk as the debt collection business is directly impacted by any economic changes.

- **Oligopoly Risk** – This risk is prominent for debt collection agencies which deal with the few prestigious clients who influence the market in terms of price and quality. In UAE presently, there are several Debt collection agencies, but the main reputable clients are comparatively smaller in number. This could be attributed to the mergers and acquisitions which have taken place in the last few years. Hence this has increased the risk where few clients are being chased by a large number of agencies.

Mitigation – Need for multiple interlinked businesses, new market framework. Working on other lines of business related to collection industry like Customer Points Verification, vehicle tracing, customer tracing, assets searches, sending demand letters and investigation & information providers.

On the other hand, agencies must begin focusing on other market segments i.e. Real estate sector, corporate sector, utilities sector instead of concentrating solely on banks and financial institutions.

5. BUSINESS DEVELOPMENT APPROACH FOR DEBT COLLECTION

To establish a debt collection business, it would be important to comprehend the intricacies of the industry as well as the market in which it operates. Along with this, the prevalent laws and regulations, communication methods, societal awareness and the behavioral patterns of the clients are to be extensively studied.

The **3s** of establishing a debt collection business.

1- Evaluation & Assessment of Opportunities - Do not invest in a business before researching the prospects which can guarantee its success and sustainability.

   E.g.: To open a successful restaurant what are the key factors? It does not rest solely on availability of funds/finance. Here, to possess the culinary expertise and restaurant management skills would be considered an opportunity, but so would be the ability to find ready contracts for karting and supply of the products while maintaining the profit ratio and delivery deadlines.

Never invest in a business without a proper assessment of the real-time opportunities. Debt collection's Business Creation & Development Model depends on strong economics for realization of profits and sustainability.

2- Growth & Expansion - Signing of Debt collection contracts with banks or corporate companies is an easier undertaking, the core competency test would be to achieve stipulated targets within the agreed deadlines; to be in adherence with the policies and procedures while simultaneously maintaining a disciplined and professional outlook in interactions with the clients and the debtors.

3- Information Updates – Stay apprised of the current trends in communication technology, data, and information sources. Maintain a strong workforce by recruiting experienced agents, supervisors, and team leader as well as a professional Quality and MIS team.

There should be a consistent focus on finding new business opportunities, meeting stipulated targets, and staying up to date with the latest trends in debt collection services. Also, there should be a time-to-time assessment of the existing employees and a recruitment drive for candidates who can further strengthen the workforce.

The Debt Collection market faces high competition in the present circumstances, and it is imperative that agencies should take steps to broaden their recovery methods. Apart from phone calls and field visits, they should employ tactics such as car tracing, assets search, customer point verification (CPV) and blacklist verification. These additional would provide the agency with competitive edge in the market share and value addition for their clientele.

Car Tracing

This is undertaken for Auto Loans/Vehicle Finance and by tracing the collaterals (vehicles or heavy-duty machines), the debt collector can arrange for re-possession which can be sold in public auctions. This process would reduce the outstanding loan amount and correspondingly, the follow-up exercise by the debt collector.

Types of Car Tracing

A. Proactive:

A tracing approach where the field collectors and 'tracer' look out for suspected vehicles (auto loan etc.) which are discernable by the state of the car over a duration of times i.e. parked in one spot for a long duration, neglected/unclean. This check could also be done at the police yards where they keep repossessed cars and then the vehicle finance details can be requested. By doing this exercise the debt collector can send the proactive list to the clients and offer services for vehicle possession and auction as per the nature of the case and the outstanding amount.

B. Active:

The debt collection agency would be provided with the list of wanted vehicles and a search would be carried out for each vehicle individually. Here the collection charges could be based on either a per vehicle charge or a percentage of the net sale value of the vehicle.

In line with the above process, Car tracing APP., is a system developed by Green Lines Company as a unique service provided for UAE clients. The client has to provide a list of wanted cars (type, plate number, color) in a hot list and the agents would use the software of number plate reader "OCR application" to search on the hotlist and identify wanted vehicles along with GPS details, then the alert is sent to the concerned client. If the vehicle captured does not exist in the hot lists details, it would be added in the general database for future searches.

Customer points verification (CPV):

This is a value-added system requested by the clients for new/restructured/under legal decision debtors. This requires checking the physical existence of the customer company profile, address verification, and stores/factories.

The above types of tracing termed as "Assets search" is a valuable tool for providing clients with a crystal-clear picture about their defaulters before expending time and efforts in initiating and pursuing legal action,

GLSCAN System

A software developed by Green lines which collects information on public notices issued via newspapers for the entire United Arab Emirates. This information has been compiled from 6 official newspapers since 2012 till date and it is a helpful tool to ascertain a customer's situation over the last several years.

The information compiled includes legal actions, notices by the public notary, Economic Department, Rent Committees etc., and is useful at all stages, prior to providing a lending facility, after providing the same and as such, even after the occurrence of default.

Finding new tools and software helps to reduce clients' risks and increases the possibilities of debt recovery. The debt collection agency should strive to provide value-added services which ensure the continuity of business relations with the clients and also growth opportunities for the agency.

COVID 19 Pandemic has created a new challenge for collection industry which threatens their very survival possibilities. Banks and financial institutions have been adversely affected by COVID19 pandemic, be it while offering new financial products and/or while collecting due payments from the customers.

Central Bank and regulatory financial authorities have applied a group of procedures and facilities to help customers who have been affected by the Pandemic e.g. deferment of due instalments by 6 months and also restructure of the existing loans. These procedures have impacted the flow of recovery cases to the debt collection agencies. Many financial institutions have reduced the outsourcing of recovery cases by allocating the same to their in-house teams.

Such unforeseen events and their repercussions have threatened the existence of debt collection industries and compelled them to operate with losses till the economic situation is revamped. The major impact has been felt by the reputable, large scale agencies leading to job redundancies and shrinking client portfolios. The smalltime agencies have been lesser affected due to their lower operating costs which in turn is reflected by the amateur manner in which they conduct business.

6. Conclusion

The profession of a debt collector is a great opportunity for learning and improving the personality, mental outlook, and professional capabilities. The skillsets required for this career have a long-lasting & beneficial impact on the manner in which people and situations are perceived i.e. refer the chapters on Visualizing, Auditory, Kinesthetic behavioral patterns as well as Neuro Linguistic Programming (NLP).

The proficiency required to work effectively as a debt collector has a character-building effect due to the demands of the job but these, when taken in a positive light, can bring about great inner transformation through the challenges faced. It teaches the importance of time management, research & analysis and the adaptability to people and circumstances.

Although on one hand it has an empowering effect, then on the other, it can impact the personal life if the debt collector does not differentiate between the work and home atmosphere. The demands of deadlines, targets and difficult clients/customers can be very stressful, and the solution lies in the challenge to balance between the two in a manner that enriches the learning experience.

It is very essential to read and re-read this book several times till sufficient understanding is achieved regarding the required skillsets, manner of building them and the efficient way of handling the debt recovery and customer interactions. This is a manual for both, the agents working in this field and for those who wish to establish the debt collection agency.

Owning a debt collection business can be highly profitable but it can also entail several difficulties due to market competition, challenges with customers (defaulters), arguments with client i.e. banks or financial institutions. Apart from the target deadlines and performance pressures there are other challenges as well, namely:

1- Cash collection is not always possible as per the client policy, at the same time there are restrictions on money transfer by many countries.

2- The necessity to contact debtors through landlines can cause limitations as it is easier for a debtor to avoid and/or block the calls.

3- While reaching out to third parties, it is difficult to emphasize the gravity of the situation without disclosing customer information pertaining to the outstanding amounts.

   Financial information is not allowed to be disclosed to a third party.

4- The monotonous work involving the calling the same customers on a daily, weekly, monthly basis, until settlement, can cause significant stress and pressure.

As per rules and regulations the above is mentioned in the Code of conduct and industry ethics to protect customers' rights and their confidentiality.

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