

DEBT COLLECTION

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The Worst and Best Places in the World to Collect Your Debts

- 04 Overview by Country and Region
- 07 Overview by Source of Complexity

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This second edition of the [Euler Hermes Collection Complexity analysis](#) looks into debt collection procedures in 50 countries (*). Sweden, Germany, and Ireland take the lead of our ranking for being the easiest countries where to collect a debt. Saudi Arabia, the United Arab Emirates and Malaysia 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.

Good economic growth fundamentals do not necessarily entail a more conducive business environment when it comes to inter-company payments. Pockets of collection complexity exist in all countries: local payment practices, and court- and insolvency-related complexities are a challenge. On average, half of the collection complexity comes from the insolvency proceedings.

(*) Country profiles are available by clicking on the following link: [Collection Country Profiles](#). The first edition, on 44 countries, was released in December 2014, ([Euler Hermes Collection Complexity Special Report](#)).

The Methodology

The Euler Hermes Collection Complexity 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). The score combines expert judgment by Euler Hermes' Collection specialists worldwide and over 40 administrative 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 out-of-court negotiation, restructuring and liquidation proceedings, priority rules and cancellation of prior transactions.

The score is then split into a four-modality rating system: Notable (score below 40), High (score between 40 and 50), Very High (50 to 60) and Severe (above 60).



Photo by Vladislav Reshetnyak from

helped put together
50 country profiles

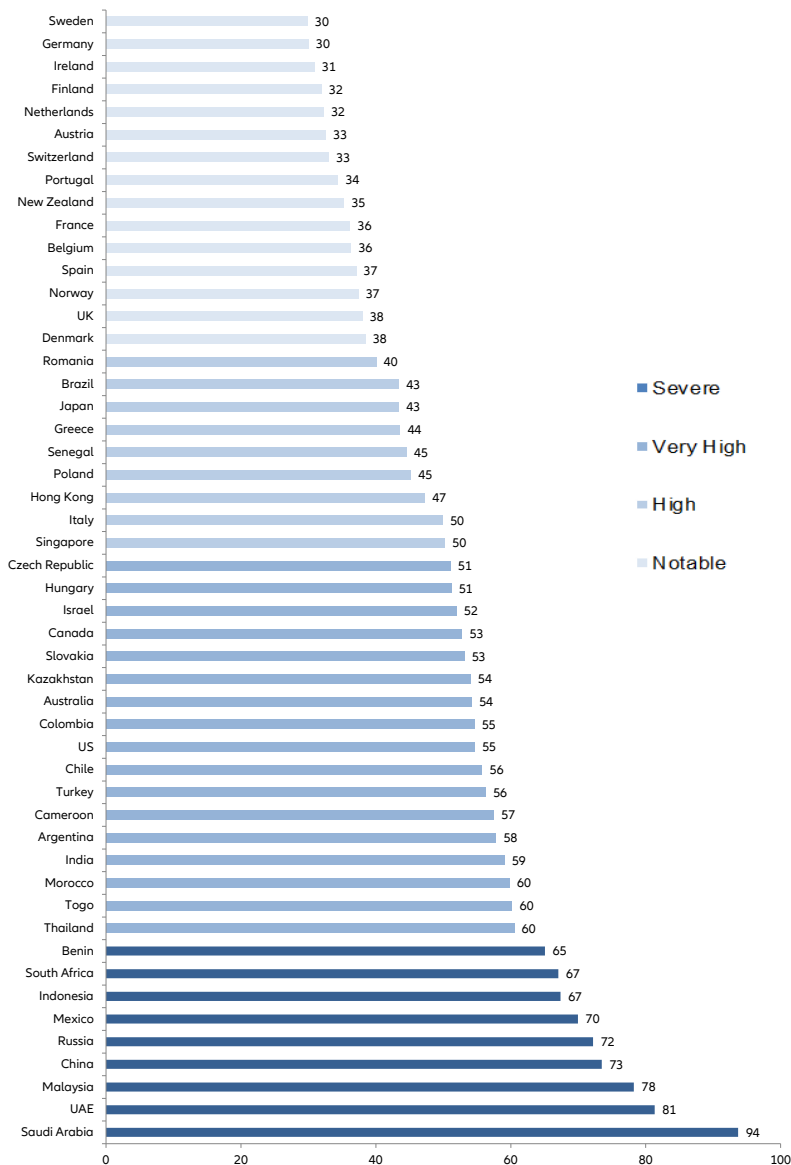
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collection specialists

GLOBAL OVERVIEW BY COUNTRY AND REGION

- Saudi Arabia, UAE, Malaysia and China are the most complex countries for debt collection
- The US and Australia are the most complex developed economies
- Most of the easiest countries to collect debt in are in Western Europe

Figure 1 Collection Complexity Score and Ratings from least complex to most complex



Source: Euler Hermes

Globally collection complexity stands at 51 on our 0-100 scale. From the lowest level of complexity in Sweden to the highest in Saudi Arabia,

Figure 1 presents our updated ranking of the best and worst places to collect a debt.

Complexity proves to be 'Notable' in less than 3 out of 10 countries. Most of them are located in Western Europe, the only exception being New Zealand. Sweden and Germany are the best in class, just ahead of Ireland and Finland.

Nine countries register a 'High' level of collection complexity, notably in Asia (Japan, Hong-Kong and Singapore), but also in Europe (Poland and Romania for the Eastern side, Italy and Greece for the Western side).

A 'Very High' level of collection complexity appears to be the standard in most regions. In Latin America, Africa, Eastern Europe and even North America the share of countries rated 'High Level' exceeds 50%.

Latin America has 3 out of 5 countries with very high collection complexity: Chile, Colombia and Argentina.

Africa has 3: Cameroon, Morocco and Togo. Eastern Europe has 4: Czech Republic, Hungary, Slovakia and Turkey.



Photo by John Tan Unsplash

The US and Canada both stand in this category as well as several countries identified in Asia, notably Australia, India and Thailand.

All in all, this 'Very High' level of collection complexity is the reality for more than one-third of our panel, totaling 17 countries.

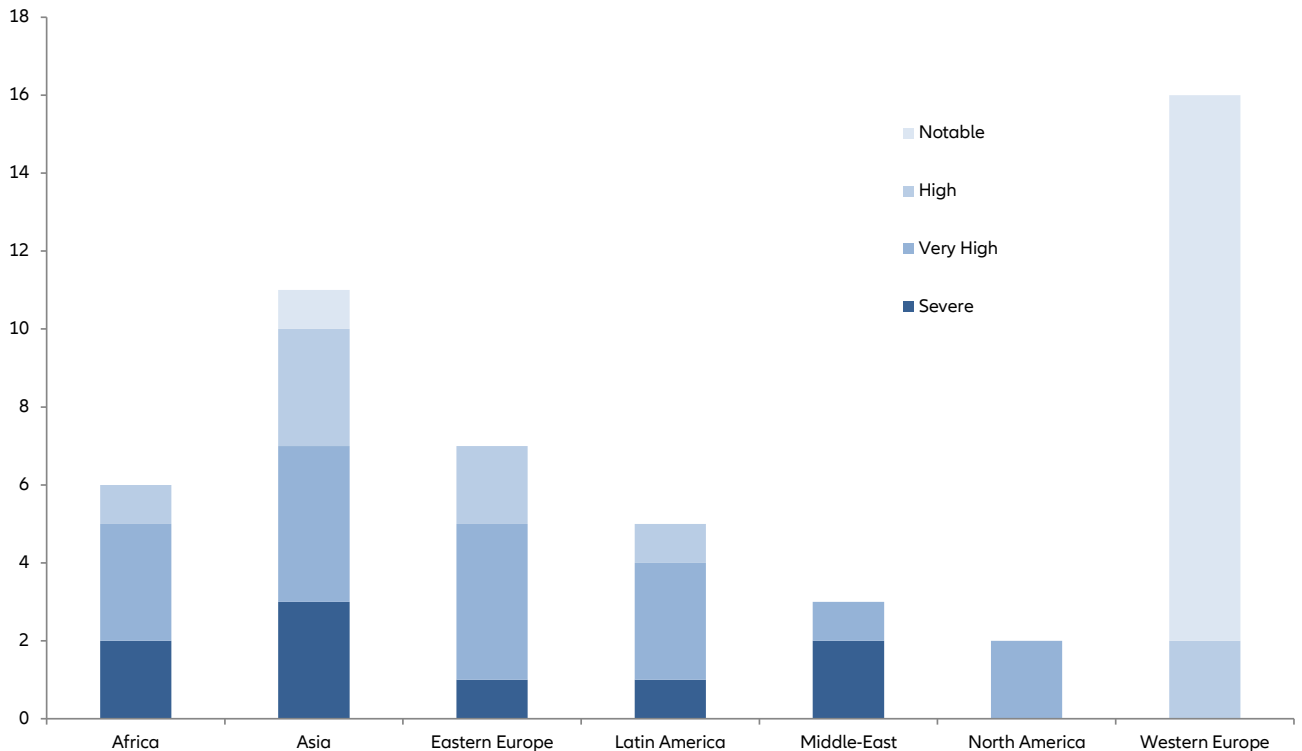
Saudi Arabia, the United Arab Emirates and Malaysia are the three most complex countries when it comes to international debt collection.

They belong to the 'Severe' rating, totaling slightly less than a fifth of the sample. Asia has the highest

number of severe countries: Malaysia, Indonesia and more significantly China leading the pack.

The Middle-East and Africa feature Saudi Arabia and the United Arab Emirates for the former, South Africa and Benin for the latter. Russia and Mexico are also part of the group.

Figure 2 Breakdown of countries by rating and region (in number of countries)



Source: Euler Hermes

A closer view by region shows that Western Europe stands out with the highest number (17) and share of countries (88%) at a 'Notable' collection complexity, with only two countries not belonging to the same category (Italy and Greece).

This apparent homogeneity should not be misleading since this often results from uneven sources of complexity from one country to another.

For instance, dealing with debtors who have entered insolvency proceedings is more complex in Germany than in Sweden despite the fact they have the same collection complexity score.

The same story applies to North America. The US and Canada both present a 'Very High' complexity. But their pretty similar score is due notably to the multi-level system (e.g., County, State and Federal structure) in which protection mechanisms are generally impractical, and to the lack of efficiency in recovering an unsecured debt.

As for the Middle East, Saudi Arabia and the United Arab Emirates rank as the two most complex countries in the world.

This is due in both cases to a large number of factors: from the poor speed, high cost and general uncer-

tainty of local legal action in Saudi Arabia to the complexity of the legal framework and the lack of independence and reliability of the courts in the United Arab Emirates.

Asia, which is the major actor in international trade, offers the most diversified picture with almost the same number of countries in each of the three most complex ratings (Severe, Very High and High), but also one better performer (New Zealand).

In Eastern Europe, there are twice as many countries with a 'Very High' complexity than with a 'High' level, and Russia which belongs to the five most complex country of the world.

SPECIAL FOCUS

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 Chile, Colombia, GCC countries, Russia, Mexico) would simply not recognize RoT agreements.

Second, other countries would recognize RoT agreements, but enforcement would be very limited or non-existent (e.g. ,US, Canada). 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, thus each giving a primacy to banks (as secured creditors) against unsecured creditors. In other countries, it would not be commonly enforced because the RoT clause would be restricted, either by the nature of the goods that are concerned or by the type of proceedings (only applicable to insolvency proceedings) such as in the Nordic countries or Brazil.

Finally, in some countries, RoT is one of the best tools to collect debts (Australia, Germany, Portugal, UK). 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 (the Netherlands, Portugal, Switzerland) while, unless the debtor agrees to avoid proceedings, having the clauses enforced by courts remains a prerequisite.

OVERVIEW

BY SOURCE OF COMPLEXITY

- **Insolvency proceedings cause half of complexity**
- **Court-related issues are the source of 31% of overall complexity; Local payment practices explain the remainder**

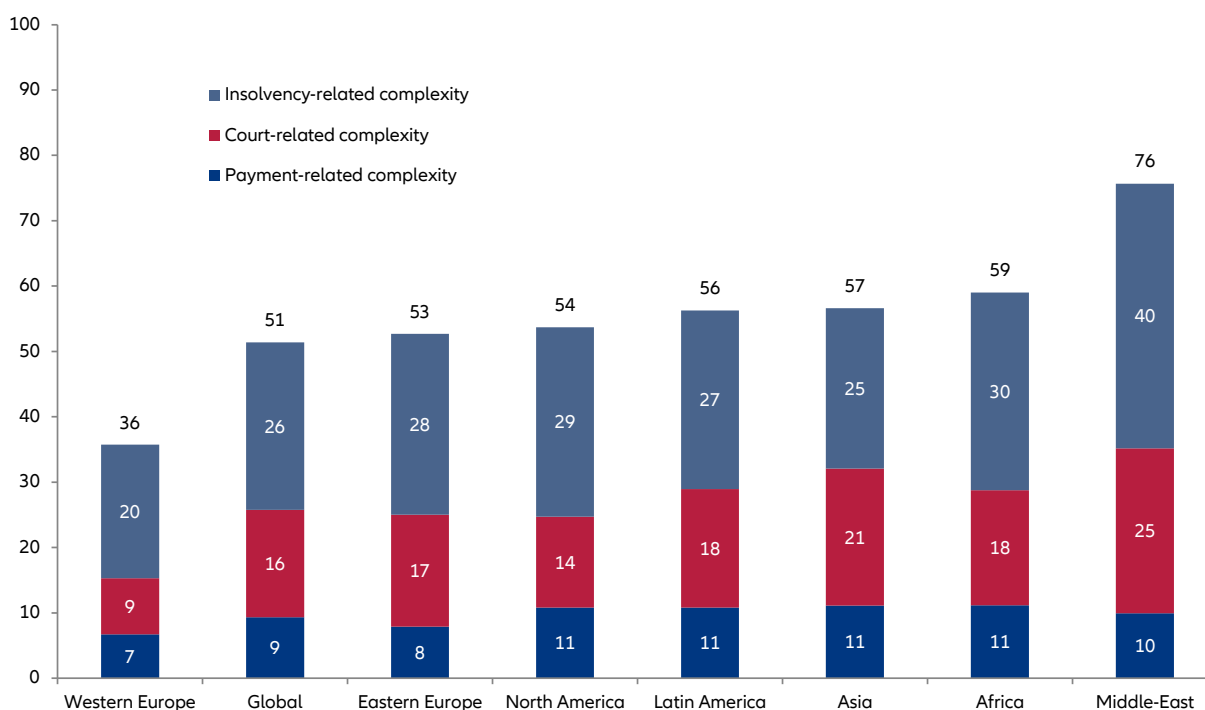
From one country to another, international debt collection is never the same, and its complexity depends on many different factors.

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 judicial proceedings.

At a global level, the score reveals that the critical factor of complexity in international debt collection is by far the **local insolvency proceedings**. On average, they contribute to half of the collection complexity of countries (51%). These refer to the difficulties in dealing with debtors who have entered insolvency proceedings. To name a few examples, this may be relevant when the legal

framework for insolvency is excessively complex, renegotiations could lead to significant debt write-off, restructuring mechanisms are used and out-of-court negotiation proceedings exist, retention of title (RoT) would grant priority during liquidation proceedings, or unsecured creditors would have a chance to recover any part of their debt after liquidation.

Figure 3 Sources of collection complexity by region (contribution to the regional score)



Source: Euler Hermes

Insolvency-related complexity is clearly more of a challenge in the Middle East than in Western Europe. The most frequent issue, mentioned for almost all countries, is the low probability to recover a debt as an unsecured creditor in practice when the liquidation proceedings have commenced.

Court-related issues represent the second source of complexity at a global level.

On average such obstacles contribute 31% of the overall complexity, but with more importance in the Middle East and Asia, in relative as well as in absolute terms.

These refer to how difficult it is to deal with domestic courts.

In other words, whether the judiciary system is understandable/transparent, whether fast-track proceedings are available, whether ownership protection clauses (such as RoT) are admissible, whether ADR (Alternative Dispute Resolution methods) is an effective way to avoid courts, whether foreign forums/judgements are available/enforceable, etc.

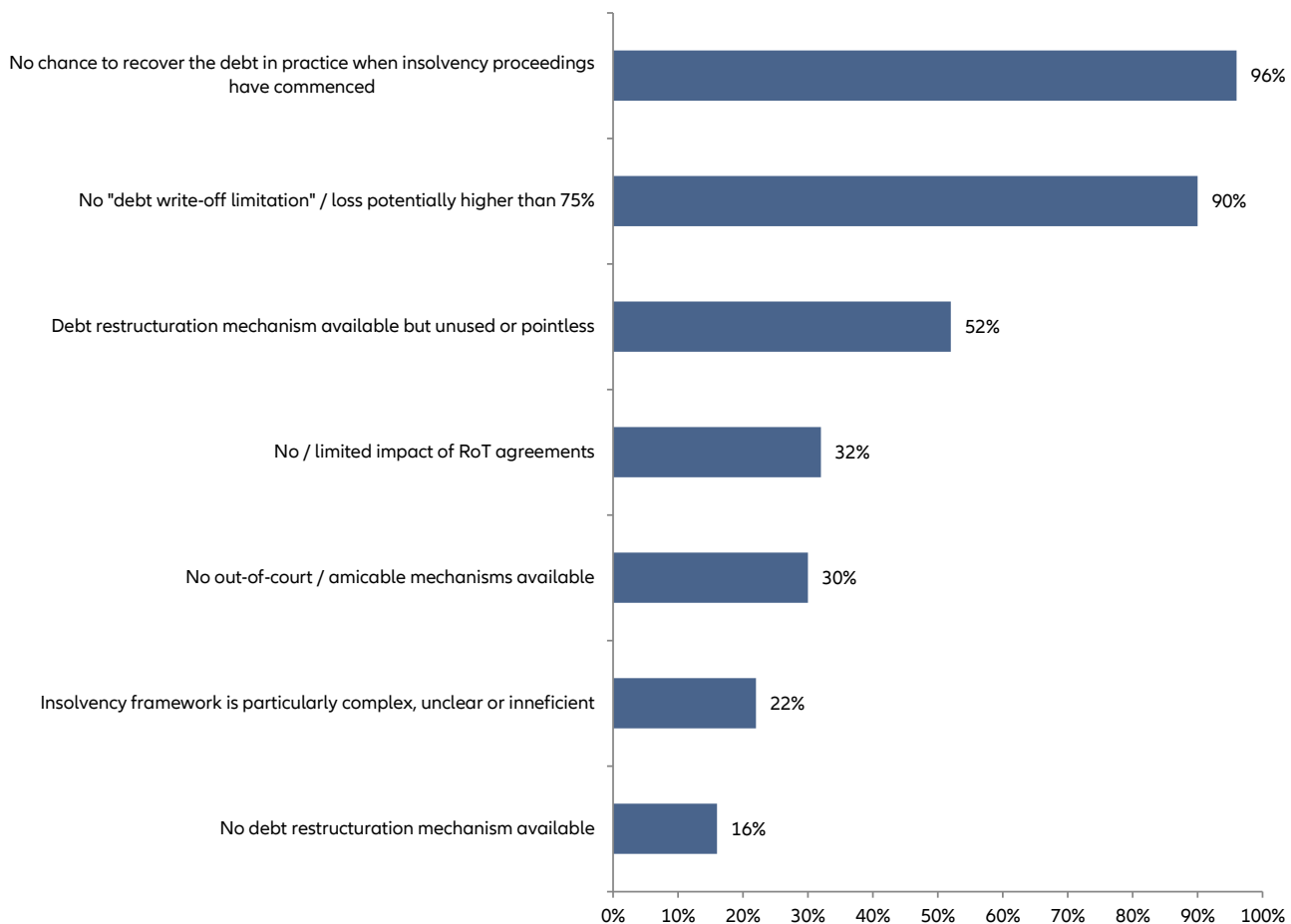
Interestingly, those issues are the key additional factors of complexity for the countries at 'Very High' and 'Severe' ratings.

The two most frequent issues are brought up in 3 out of 5 countries.

First there is the lack of a regional framework offering harmonized fast-track proceedings.

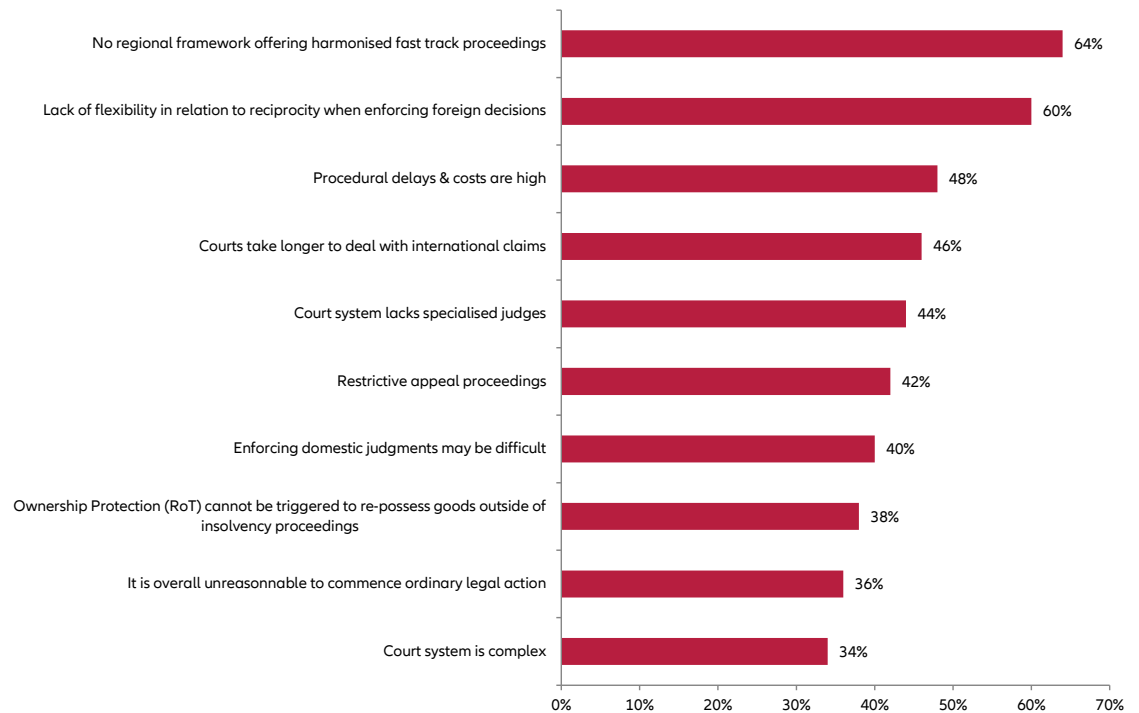
Then one must tackle the rigidity in relation to reciprocity when enforcing a foreign decision.

Figure 4 Insolvency-related complexity: TOP difficulties for collection (number of countries in %)



Source: Euler Hermes

Figure 5 Court proceedings-related complexity: TOP difficulties for collection (number of countries in %)



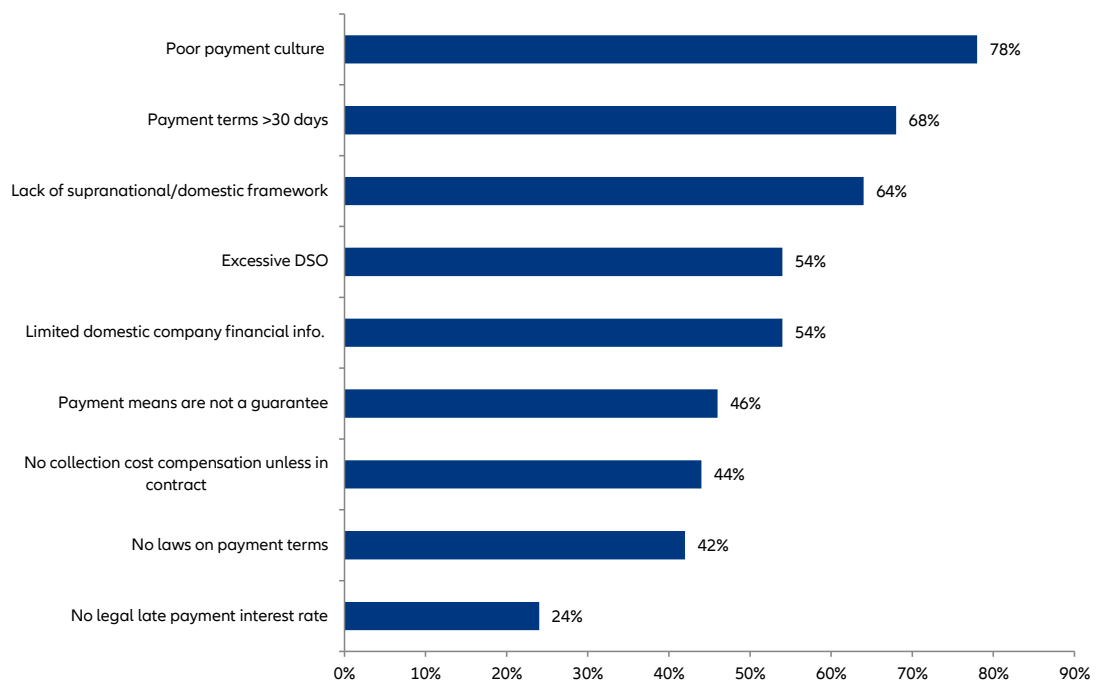
Source: Euler Hermes

The local payment context and practices are also often a factor of complexity, despite much less vital importance in relative terms (on average they contribute to 18% of the overall complexity).

They refer to local payment habits and regulatory framework overseeing payments. The most frequent issue is the low level of payment culture, in almost 8 out of 10 countries.

The most complex practices occurred notably in China, India, Kazakhstan, Mexico, Saudi Arabia and South Africa.

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



Source: Euler Hermes

Appendix A

Overview of ranking, score, ratings and sub-ratings

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	94	Severe	\$\$\$\$	\$\$\$\$	\$\$\$\$
2	UAE	81	Severe	\$\$\$	\$\$\$\$	\$\$\$\$
3	Malaysia	78	Severe	\$\$\$	\$\$\$\$	\$\$\$\$
4	China	73	Severe	\$\$\$\$	\$\$\$\$	\$\$\$\$
5	Russia	72	Severe	\$\$\$\$	\$\$\$\$	\$\$\$\$
6	Mexico	70	Severe	\$\$\$\$	\$\$\$\$	\$\$\$\$
7	Indonesia	67	Severe	\$\$\$\$	\$\$\$\$	\$\$
8	South_Africa	67	Severe	\$\$\$\$	\$\$\$\$	\$\$\$
9	Benin	65	Severe	\$\$\$	\$\$\$	\$\$\$\$
10	Thailand	60	Very High	\$\$\$	\$\$\$\$	\$\$
11	Togo	60	Very High	\$\$\$	\$\$\$	\$\$\$\$
12	Morocco	60	Very High	\$\$\$\$	\$\$\$	\$\$\$
13	India	59	Very High	\$\$\$\$	\$\$\$\$	\$\$
14	Argentina	58	Very High	\$\$\$\$	\$\$\$	\$\$\$
15	Cameroon	57	Very High	\$\$\$\$	\$\$	\$\$\$\$
16	Turkey	56	Very High	\$\$\$\$	\$\$\$\$	\$\$
17	Chile	56	Very High	\$\$\$	\$\$\$	\$\$\$
18	USA	55	Very High	\$\$\$\$	\$\$\$	\$\$\$
19	Colombia	55	Very High	\$\$\$	\$\$\$	\$\$\$
20	Australia	54	Very High	\$\$\$\$	\$\$\$\$	\$\$
21	Kazakhstan	54	Very High	\$\$\$\$	\$\$\$	\$\$
22	Slovak_Republic	53	Very High	\$	\$\$\$	\$\$\$
23	Canada	53	Very High	\$\$\$	\$\$	\$\$\$
24	Israel	52	Very High	\$\$	\$\$	\$\$\$\$
25	Hungary	51	Very High	\$	\$\$	\$\$\$
26	Czech_Republic	51	Very High	\$	\$\$\$	\$\$\$
27	Singapore	50	High	\$\$\$\$	\$\$\$	\$\$
28	Italy	50	High	\$\$	\$\$\$	\$\$
29	Hong_Kong	47	High	\$\$\$\$	\$\$	\$\$
30	Poland	45	High	\$	\$	\$\$\$\$
31	Senegal	45	High	\$\$\$\$	\$\$	\$\$
32	Greece	44	High	\$\$\$	\$\$	\$\$
33	Japan	43	High	\$	\$\$\$	\$\$
34	Brazil	43	High	\$\$\$	\$\$	\$\$
35	Romania	40	High	\$	\$\$	\$\$
36	Denmark	38	Notable	\$	\$\$	\$\$
37	UK	38	Notable	\$\$	\$	\$\$
38	Norway	37	Notable	\$	\$\$	\$\$
39	Spain	37	Notable	\$\$\$	\$\$	\$
40	Belgium	36	Notable	\$\$	\$	\$\$
41	France	36	Notable	\$	\$\$	\$\$
42	New_Zealand	35	Notable	\$\$\$	\$\$	\$
43	Portugal	34	Notable	\$\$	\$\$	\$
44	Switzerland	33	Notable	\$\$	\$	\$\$
45	Austria	33	Notable	\$	\$	\$\$
46	Netherlands	32	Notable	\$	\$	\$\$
47	Finland	32	Notable	\$	\$\$	\$
48	Ireland	31	Notable	\$\$	\$	\$
49	Germany	30	Notable	\$	\$	\$\$
50	Sweden	30	Notable	\$	\$	\$

Source: Euler Hermes

Comparison with 2014

Collection Complexity Score	2014	2018	Comparison
Saudi Arabia	89	94	Increase
UAE	80	81	Increase
Malaysia	74	78	Increase
China	76	73	Decrease
Russia	77	72	Decrease
Mexico	69	70	Increase
Indonesia	69	67	Decrease
South Africa		67	New country
Benin		65	New country
Thailand	60	60	Stable
Togo		60	New country
Morocco	60	60	Stable
India	58	59	Increase
Argentina	64	58	Decrease
Cameroon		57	New country
Turkey	53	56	Increase
Chile	53	56	Increase
USA	53	55	Increase
Colombia	60	55	Decrease
Australia	50	54	Increase
Kazakhstan		54	New country
Slovak Republic	66	53	Decrease
Canada	46	53	Increase
Israel	53	52	Decrease
Hungary	54	51	Decrease
Czech Republic	58	51	Decrease
Singapore	49	50	Increase
Italy	53	50	Decrease
Hong Kong	47	47	Stable
Poland	54	45	Decrease
Senegal		45	New country
Greece	44	44	Stable
Japan	43	43	Stable
Brazil	55	43	Decrease
Romania	44	40	Decrease
Denmark	44	38	Decrease
UK	41	38	Decrease
Norway	38	37	Decrease
Spain	36	37	Increase
Belgium	36	36	Stable
France	39	36	Decrease
New Zealand	36	35	Decrease
Portugal	41	34	Decrease
Switzerland	35	33	Decrease
Austria	34	33	Decrease
Netherlands	36	32	Decrease
Finland	38	32	Decrease
Ireland	38	31	Decrease
Germany	31	30	Decrease
Sweden	31	30	Decrease

Source: Euler Hermes

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