

DEBT COLLECTION MARKET IN ROMANIA – TRENDS AND PRACTICES

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Abstract. *In Romania, in the matter of collection of non-performing debts, in recent years, it has outlined an emerging market, oligopoly, with a relatively low number of debt recovery entities. Considering that the recovery has as its object the relations established between business environment and consumers, like the Member States of the European Union, starting in 2016, the National Authority for Consumer Protection (in Romanian **Autoritatea Națională pentru Protecția consumatorilor ANPC**) is vested by law with the power of supervision and monitoring of collection policies and actions, having as its main purpose the elimination of abuses. Moreover, at the level of the market, 17 of the 59 collection agencies have been organized in the form of **Commercial Debt Management Association** (in Romanian **Asociația de Management al Creanțelor Comerciale (AMCC)**). This article seeks to determine trends in such markets, starting from the analysis of indicators namely the market size and dynamics, i.e. the level and structure of the debt acquisitions by fields of activity. At the same time, we will assess the main debt collection practices and actions.*

Keywords: law, relevant market, concentration level, price, outsourced debts

JEL Classification: E51, F12, K20, G21.

1. Introduction

The ability to efficiently and effectively collect debts is an essential element in the economy¹. The actual collection of debts offsets the borrowers' insolvency risk, thereby decreasing the level of non-performing loans². We must consider that the collection process is a complex one based on special techniques, because it applies to both bankrupt borrowers who can no longer pay, as well as borrowers who do not want to pay.

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¹ Todd J. Zywicki, *The Law and Economics of Consumer Debt Collection and Its Regulation.*, Mercatus Working Paper, Mercatus Center at George Mason University, Arlington, VA, September 2015, <https://www.mercatus.org/system/files/Zywicki-Debt-Collection.pdf>

² Robert Stanley, *The State of Debt Collection 2018: industry, statistics, trends, collection practices and more* <https://callminer.com/blog/state-debt-collection-2018-industry-statistics-trends-collection-practices/>

Since the end of the year 2016, ANPC is the competent public authority to oversee the practices and activities of collection agencies. Similar to the other authorities of the Member States, may conduct investigations with an active character, sanctioning the agencies applying collection policies and practices prohibited by law. The market has as main goal the development of an effective debt collection process, leading ultimately to minimize the risk of contract. In the context of restructuring collection policies and practices, takes shape a code of good practice in the market, and some of these rules will most likely be binding for both borrowers and for agencies.

With regard to the Romanian debt collection market we appreciate that it is a young, emerging market, oligopoly, with a relatively small number of debt collection agencies recorded at ANPC, working legally. At the beginning of the year 2017 in the market were 59 such agencies registered with the ANPC. 17 of these are part of AMCC. The latter is an organized structure at the level of the market, since 2007, of which primary purpose is to regulate the debt collection profession, to monitor the market and to establish a set of professional principles, which must be respected by both debtors and debt collection companies. Through AMCC, Romania became the 15th member of the Federation of European National Collection Associations (FENCA). This is a non-profit organization, established since 1993, protecting the rights and interests of associations in relation to national supervisory authorities³.

This paper aims to provide an X-ray of the market, by identifying agencies' collection actions, but also the dynamics of the market size, and sectors of activity which constitutes the main source of the debts. Although from a numerical point of view increasing the level of outsourced debts (type B2C (domestic/individuals) and B2B (legal persons)) was below the threshold of 10%, in terms of value increase was superior. Worth mentioning is the fact that the agencies have oriented more on the domestic market in sectors such as telecommunications, banking and non-banking financial institutions (NFI). As regards the level of debt recovered, the growth trend has been observed in recent years, with a level exceeding

³ *The main objectives of FENCA:* To protect and expand the interests of member national associations; To promote the development of European legislation relating to the field of debt collection; To promote the development of the following aspects in the framework of the national member associations; Collected capital for clients will be separated from the capital of the company; To have special insurance to protect clients; To establish a Committee to resolve the complaints; To establish training facilities; To establish basic rules and norms relating to the conclusion of contracts and agreements between agencies and their clients.

20% at the beginning of 2017, as compared to the previous year. Amid these developments, the recorded income by debt recovery agencies grew on average by over 30% in recent years.

2. Debt collection actions and debt collection agencies

In the sector of the collection act *specialized collection agencies* working for the purpose of collecting the outstanding debt: sometimes as Court of first instance, becoming proprietor of non-performing debt for which they pay a percentage of the nominal value and track the recovery in their integrity, sometimes for other creditors, as a third party agent, relying generally on the business principle “*no cure, no pay*”. Collection services performed on their behalf and for some third-party lenders have as providers the and banking and non-banking credit entities and institutions, retail and pay in installments stores, the telecommunications sector, NFI, insurance⁴.

The role that this sector performs is to ensure the enforcement of contracts, under the conditions agreed upon between borrowers and lenders. Fedaseyeu⁵ describes the role of debt collection in general *as a mechanism for consumer protection that also protects the lender from bankruptcy*. When the collection is efficient, lenders will also grant credits to the more risky borrowers, with low scores in credit analysis, in an environment in which they will be able to mitigate the loss of the *post default* collection. Their specialization provides them with the opportunity to differentiate between *consumers who can no longer pay and those who do not want to pay*⁶.

Given the nature of these debt collection activities, at the level of member States have been adopted rules which had as their object the extrajudicial collecting costs standardization⁷. The need for this regulation resulted from the fact that the collection is one extended, enduring what can encapsulate both a *soft collection* stage, with lots of *back-and-forth* (by phone or email), followed later by *hard collection* through bodies empowered by law, namely bailiffs/judiciary executors. These had as main

⁴ <https://www.acainternational.org/advocacy/collection-industry-basics>

⁵ Viktor Fedaseyeu and Robert Hun, *The Economics of Debt Collection: Enforcement of Consumer Credit Contracts*-Working Papers Federal Reserve Bank of Philadelphia <https://www.philadelphiafed.org/-/media/research-and-data/publications/working-papers/2018/wp18-04.pdf?la=en>

⁶ Josh Adams, *The role of third party debt collection in the US Economy*, January 2016, ACA INTERNATIONAL WHITE PAPER -<http://www.acainternational.org/assets/research-statistics/aca-wp-role3rdparty.pdf>

⁷ Wet ter normering buitengerechtelijke incassokosten, sau Wik

goal the delimitation of the cases and the manner in which the collection agencies may charge costs, ensuring the collection process and the relationship between the lender and the borrower a high degree of transparency⁸. Under this regulation the agencies have the right to charge the costs of collection from consumers who do not pay within the deadline of the submission of the notification. In fact consumers should be informed of the period within which they must pay additional costs, in case of delay.

Moreover, at the level of each Member State, the debt recovery activities are conducted under the supervision and control of the *National Authority for Consumer Protection*. Supervision is necessary in order to avoid abusive behavior, exerting pressure on consumers, and may otherwise penalize any deviation. For example in the Netherlands, at the beginning of the year 2018, the authority has started a broad investigation within the entities to eliminate their abusive practices, implicitly by also applying fines. These include CREDIT INVEST Debt Recovery Agency with a fine of Euro 415,000.00. It required consumers to pay debts resulting from commitments and bills that were not valid. Despite the fact that consumer debtors repeatedly demanded information about the nature of debts the Agency refused to provide⁹.

In Romania, the need for surveillance of this activity was materialized in the year 2016, by setting up the conditions under which recovery agencies can undertake the debt collection activities¹⁰. In the list of entities engaged in recovering debts, appearing in the records of the ANPC, there

⁸ The Dutch Authority for Consumer and Market Protection (ACM) (November 2015) – *A study on the commercial practices of debt collection agencies* https://www.acm.nl/sites/default/files/old_publication/publicaties/14898_acm-study-into-the-commercial-practices-of-debt-collection-agencies

⁹ <https://www.acm.nl/en/publications/acm-takes-action-against-debt-collection-agencies> – (at the same time operating under the name Nederlandse Incassocentrale, Credit Pay, MKBusiness and Stichting Derdengelden Incasso Service) - the fine was paid in the amount of eur 375,000 by the company and Euro 40,000 by its Executive

¹⁰ *The conditions imposed by the law are cumulative in nature*: the status of a legal person, the level of social capital subscribed and paid up may not be less than 500,000 lei, to pursue debt recovery activity, to obtain rights to debits (overdue) resulting from credit contracts in accordance with article 58 paragraph 4 – credit agreements for loans which the lender said early maturity or initiated the procedure for enforcement against consumers, administrative offices, a branch or representative in Romania, the persons responsible for the management and mastering its activity have a good reputation, the way it is rewarded and motivated staff should not depend exclusively on the achievement of the objective of the emergency Ordinance No. 52/2016 concerning consumer credit agreements provided for real estate, as well as for the modification and completion of the Government Emergency Ordinance No. 50/2010 relating to credit agreements for consumption regarding debt recovery of claims and nor is it exclusively related to the sums recovered.

are 59 of these entities¹¹. The lack of registration of such collection agency makes the collection activity to be undertaken outside the legal sphere.¹² The law has established with express character what collection activities can and cannot be taken in order to recover non-performing debts. ANPC is the public authority vested by law with full powers of supervision, control and sanction of this sector.

In terms of the *market's degree of concentration*, in the year 2016, we appreciate that it may be measured at the level of recovery of the 17 loans recovery entities registered with AMCC, considering that the other 42 such entities do not have a relevant market. According to data of ANPC they own about 70 percent of the debt collection market¹³ and about 90% of the collection services market¹⁴. As a consequence, the entities which are not members in AMCC have a combined market share that does not influence its development from a competitive point of view.

The analysis to determine the degree of concentration of the market may be based on only one product supplied, without taking into account the differences between the products offered. However, the work conducted on the market is diverse and debt collection encompasses a wide range of services and products, which may result in different relevant markets geographically but also those specific to each product (OECD, 2007)¹⁵. In order to identify and define the relevant market, an important role has to establish barriers to entry, either those which give rise to structural costs and with direct implications on consumers or the legal ones arising from legal and administrative measures¹⁶.

As regards *the definition of the relevant market* we appreciate that the analysis must bear in mind the criteria expressly established by law. *From a geographic point of view* we claim that *the relevant market is represented at the national level*. In order to define *the relevant product market* we appreciate that it is necessary to differentiate the outsourced

¹¹ <http://www.anpc.gov.ro/articol/863/registru-1-1-1->

¹² The Emergency Ordinance No. 52/2016 concerning credit agreements provided to consumers for real estate, as well as for the modification and completion of the Government Emergency Ordinance nr. 50/2010 relating to credit agreements for consumption regarding debt recovery of claims and nor is it exclusively related to the sums recovered.

¹³ Debt collection market according to AMCC definition includes both debt collection, as well as debt portfolios purchases.

¹⁴ http://www.ensight.ro/wp-content/uploads/2017/05/2017-05-23-AMCC-Survey-2016-RO_final.pdf

¹⁵ OECD Bank Competition and Financial Stability, 2011.

¹⁶ Tirole Jean, *Market power and regulation*, Economic Sciences Prize Committee of the Royal Swedish Academy of Science, 2014.

debts related to the person of the debtor (the type B2C (domestic/ individuals) and B2B (legal persons)) and its nationality, whether national or international.

As it results from **Table No. 1** within the first 17 debt collecting entities from Romania, the level of concentration is a *medium* one. The evolution of competition within this sector is based on a quantitative analysis by identifying some evolution of structural indices, economic actors involved, concentration rate (CR5 and CR10), and Herfindal Hirschman index (HHI)¹⁷. Thus the concentration rates of the first five such entities records a level that exceeds the 70% threshold, and of the top ten is 90.29%. HHI index level is 1468.543, thus confirming the medium degree of concentration. We appreciate that these entities have an influence on the behavior of competitors, but also on the manner in which the market moves. A high degree of concentration can encourage medium and long-term cooperation between these agencies to recover non-performing debts, which is a prerequisite to the collection process.

Table No. 1.
Registered agencies from AMCC in 2016

| NR. | NAME OF THE COMPANY | TURNOVER (LEI) | TURNOVER (EUR) | % IN ALL AMMC MEMBERS (MARKET SHARE) |
|-----|---------------------|----------------|----------------|--------------------------------------|
| 1 | KRUK ROMANIA | 86,399,932.00 | 19,199,985.00 | 28.73% |
| 2 | EOS KIS ROMANIA | 58,068,617.00 | 23,904,137.00 | 19,31% |
| 3 | FIRE CREDIT | 24,199,501.00 | 5,377,667.00 | 8.05% |

¹⁷ The **concentration rate** is calculated by: $CR_k = \sum_{i=1}^k s_i$, where s_i represents the market share of the company i in the sector, and k represents the first k companies from the market. (Competition Council, 2012)

Herfindahl Hirschman Index is calculated by $HHI = \sum_{i=1}^n s_i^2$, where s_i represents the i company's market share, and n the number of companies working on the market. (Competition Council, 2012)

HHI INDEX LEVEL

| Grad de concentrare | Valoarea HHI | |
|---------------------|-------------------|-------------|
| | Comisia Europeană | DOJ + FTC |
| redus | < 1000 | < 1500 |
| mediu | 1000 – 2000 | 1500 – 2500 |
| mare | > 2000 | > 2500 |

| | | | | |
|----|-------------------------------------|-----------------------|----------------------|----------------|
| 4 | TOP FACTORING | 22,476,836.00 | 4,994,852.00 | 7.48% |
| 5 | COFACE | 20,989,920.00 | 4,664,427.00 | 6.98% |
| 6 | GETBACK RECOVERY | 14,194,935.00 | 3,154,430.00 | 4.72% |
| 7 | MELLON ROMANIA | 14,019,680.00 | 3,115,484.00 | 4.66% |
| 8 | CYCLE EUROPEAM | 10,746,310.00 | 2,388,069.00 | 3.57% |
| 9 | DEBT COLLECTION AGENCY | 10,342,646.00 | 2,298,366.00 | 3.44% |
| 10 | IMPROVEMENT CREDIT COLLECTION | 10,058,818.00 | 2,235,293.00 | 3.35% |
| 11 | CREDITEXPRESS ROMANIA | 9,981,788.00 | 2,218,175.00 | 3.32% |
| 12 | RECOLLECTION | 6,625,615.00 | 1,472,359.00 | 2.20% |
| 13 | OTP FACTORING | 4,243,407.00 | 942,979.33 | 1.41% |
| 14 | KREDIT INKASO | 3,847,489.00 | 854,998.00 | 1.28% |
| 15 | GERI GESTIONE RISCHI* | 2,967,732.00 | 659,496.00 | 0.99% |
| 16 | CREDITREFORM ROMANIA* | 1,428,166.00 | 317,370.00 | 0.47% |
| 17 | KIA JURIDIC* | 92,287.00 | 20,508.00 | 0.03% |
| | TOTAL | 300,683,679.00 | 77,818,595.33 | 100.00% |

Data source: Ministry of Public Finance (* not registered at ANPC).

As you can see from the above table, the leader on the market is KRUK ROMANIA with about 400,000 Euro the level of registered social capital, a total of 572 employees and a market share of over 28%, being also one of the founders of AMCC. It is followed by EOS KSI Romania, Fire Credit, Top Factoring and Coface. With regard to the structure of the first five companies we mention that they are characterized by the fact that they are owned by international financial groups, which gave the premises to dominate financially the other competitors and implicitly the market.

3. The size and dynamics of debt collection market in Romania

To be able to analyze, from the point of view of size and dynamics of debt collecting market from Romania it is necessary to differentiate the nature of debts subject to collection activities. Thus from the point of view of the product, the market is divided into two broad categories of **outsourced debts** type B2C (individuals) and B2B (legal persons). Their level is measured, both numerically and in value, also related to the sectors

of the economy providing non-performing debts for collection agencies. As a consequence, in this case we speak of the notion of outsourced debts. Following the collection process implemented by each debt collection agency, they become collection debts, transforming thus from non-performing debts, outsourced to the collection agencies by the original creditors, in recovered debts.

Amid the collection cost growth of non-performing debts, in the year 2016, the value of the debts contained in the agencies' portfolio has increased by 45% from the previous year. This was due to *the process of outsourcing* of debts having physical persons as borrowers. The original lenders were oriented to transfer from their own portfolio these non-performing debts to specialized agencies, in order to minimize potential losses due to legislative changes¹⁸. This orientation marked the development of the debt collecting market in recent years. Numerically in 2016 was a moderate increase, only 2% over the previous year, with a number of around 5.2 million cases¹⁹. The main sectors that have caused this were banking and telecommunications. As regards the level of collected debts, 2016 was characterized by a growth trend of approximately 29%, due to the increase in terms of value of the debts collected in the B2C segment²⁰. However, the number of collected cases has been declining from the previous year, with a level of -10%. This development shows that the specialization of agencies in collecting actions makes that for a smaller number of debts, the amount collected to be greater, with the compliance of the effectiveness principle. Amid these developments recorded by the revenue collection agencies, the total increased by approximately 39%. So, either they were able to cover the paid cost, as a result of the acquisition of non-performing debts, whether they have recovered the fee for the recovered debts, as an agent for the original creditors, at the same time minimizing the cost of collection.

In terms of *structure of the outsourced debts that have as individual debtors, B2C type*, as follows in **table no. 2**, period 2013-2016 was characterized by a growth in terms of value. Thus it can be seen that the share of debts purchased in total increased from 2013, from a level of 27%,

¹⁸ Debt Collection Agency, Credit Express România, Eos KSI Romania, KRUK Romania, Top Factoring, Cycle European, Fire Credit, Kredyt Inkaso, Getback Recovery, Creditreform România, Coface România, Re Collection

¹⁹ <http://www.ensight.ro/comunicat-piata-domestica-de-colectare-a-creantelor-a-inregistrat-o-crestere-de-45-in-2016-fata-de-anul-precedent/>

²⁰ http://www.ensight.ro/wp-content/uploads/2017/05/2017-05-23-AMCC-Survey-2016-RO_final.pdf

to about 57% in 2016, and with regard to the outsourced debts share dropped 30 percentage points from 73% in 2013, to 43% in 2016. Evolution materialized amid the optics of original creditors who sought to eliminate from their portfolio of non-performing loans by selling/leasing them to recovery agencies, at the expense of outsourcing the collection process, while the agencies have acted in their own name. Consequently, all the action of debts collection have been undertaken by agencies as a lender, those being forced to cover both the cost of the purchase of debts and the collection. As a result of players' strategies, in conjunction with the latest legislative amendments for the purposes of optimizing portfolios, market dynamics was alleviated in the year 2016.

Table 2 B2C type debts

| DEBTS REFERRED DOMESTIC B2C | NUMBER OF CASES | | | | VALUE IN EURO | | | | AVG. VALUE IN EUR/CASE | | | |
|---------------------------------|-----------------|--------------|--------------|--------------|------------------|------------------|------------------|------------------|------------------------|----------|----------|----------|
| | 2013 | 2014 | 2015 | 2016 | 2013 | 2014 | 2015 | 2016 | 2013 | 2014 | 2015 | 2016 |
| SERVICED DEBT | 4,400,000.00 | 4,160,803.00 | 4,494,539.00 | 4,138,164.00 | 1,196,400,000.00 | 781,112,242.00 | 675,029,078.00 | 962,397,243.00 | 269.00 | 178.00 | 150.00 | 233.00 |
| PURCHASED DEBT | 844,000.00 | 738,311.00 | 550,469.00 | 1,026,930.00 | 450,900,000.00 | 498,590,870.00 | 761,948,695.00 | 1,300,933,994.00 | 1,170.00 | 1,126.00 | 1,384.00 | 1,267.00 |
| TOTAL | 5,244,000.00 | 4,899,114.00 | 5,045,008.00 | 5,165,094.00 | 1,647,300,000.00 | 1,279,703,112.00 | 1,436,977,773.00 | 2,263,331,237.00 | 1,439.00 | 1,304.00 | 1,534.00 | 1,500.00 |
| THE SERVICED DEBT RATIO | 84% | 85% | 89% | 80% | 73% | 61% | 47% | 43% | 19% | 14% | 10% | 16% |
| THE PURCHASED DEBT RATIO | 16% | 15% | 11% | 20% | 27% | 39% | 53% | 57% | 81% | 86% | 90% | 84% |

Data source: AMCC.

An important element within the B2C type debts is also represented by international debts. Though numerically they are fewer compared to national debts, in terms of value in the year 2016, their level was superior. The evolution was implicitly confirmed by the average case value for national debts being only 1,500 Euro /case, and for those international about 2,000 Euro per case. Despite this, the Romanian debts collection market has been oriented over time mainly over national debts. This orientation had in mind both the foreign element that could hold back the process of collection, as well as the collection cost himself that could sometimes exceed the amount of the debts what they wanted to be collected.

According to data supplied by AMCC, *numerically*, the sector that provided the most cases of debts with individual borrowers, in the year 2016 was the telecommunications sector with a number of over 8 million default debts, outpacing the banking sector. In the Recovery Agencies portfolio were registered about 3 million outsourced debts from telecommunication and 6 million in the banking sector, and regarding the debts purchased about 5 million from telecommunications and only about 3 million banking debts. This development is based on the nature of the debt and which is subject of recovery. Compared to the debts related to the telecommunications sector we mention that it can be recovered in the *soft collection* stage, with lower costs compared to banking. That's why the agencies were targeted in becoming owners of certain more efficient debts at the expense of banking debts, for which they have chosen to act as a representative in the collection process and to hold as outsourced debts a larger number of such debts.

However, *in terms of value*, the first position in the ranking is owned by the banking sector, followed by NFI. By reference to these rankings we appreciate that the importance of the banking sector on the debts collecting market is confirmed. This evolution that were outlined under the conditions of a changed legislative climate, amid the re-establishment of the legal regime applicable to credit agreements secured by a real estate and the giving into payment law to European norms²¹. Due to the new rules adopted in the field of loans recovery and the authorization of collecting agencies the market will be characterized by prudential developments over the period ahead. So, borrowers and market entities will aim to fold on the new changes, in order to improve their portfolio in terms of risk minimization and structural.

²¹ In the year 2016, most active banks were Romanian Commercial Bank, Bancpost and BRD

From the perspective of B2C type collected debts, offered to individuals, the orientation of the banking sector has led to a decrease in the amount of collected value with about 20 percent in the year 2016 compared to previous year. However the level exceeds the average for the preceding five years, was around the 7% threshold. We appreciate that this evolution was due mainly to the increase in the value of the debts that have been subject to collection and not to their number, otherwise in conjunction with a streamlined collection process and a standardization of the collection cost. The first three sectors that formed the basis to the increase in the level of collected debts were represented by the sectors which have outsourced those debts, namely banking, telecommunications and NFI. At the same time, due to structural enhancements of the agencies' customer portfolios, the average number of debts collected per case had recorded an increase from 43 Euro/ case to 140 Euro/case.

Table 3 B2B type commercial debts

| DEBTS RECOVERED B2B | NUMBER OF CASES | | | | VALUE IN EURO | | | | AVG. VALUE IN EUR/CASE | | | |
|---------------------------------|-----------------|-----------|------------|-----------|----------------|----------------|----------------|----------------|------------------------|----------|----------|----------|
| | 2013 | 2014 | 2015 | 2016 | 2013 | 2014 | 2015 | 2016 | 2013 | 2014 | 2015 | 2016 |
| SERVICED DEBT | 77,168.00 | 77,168.00 | 107,653.00 | 73,958.00 | 56,466,500.00 | 56,466,500.00 | 103,037,393.00 | 72,600.139.00 | 1,476.00 | 732.00 | 957.00 | 982.00 |
| PURCHASED DEBT | 7,944.00 | 21,318.00 | 23,097.00 | 24,478.00 | 65,660,745.00 | 79,009,956.00 | 164,431,668.00 | 132,777,247.00 | 14,602.00 | 3,706.00 | 7,119.00 | 5,424.00 |
| TOTAL | 85,112.00 | 98,486.00 | 130,750.00 | 98,436.00 | 122,127,245.00 | 135,476,456.00 | 267,469,061.00 | 205,377,386.00 | 16,078.00 | 4,438.00 | 8,076.00 | 6,406.00 |
| THE SERVICED DEBT RATIO | 90.67% | 78.35% | 82.33% | 75.13% | 46.24% | 41.68% | 38.52% | 35.35% | 9.18% | 16.49% | 11.85% | 15.33% |
| THE PURCHASED DEBT RATIO | 9.33% | 21.65% | 17.67% | 24.87% | 53.76% | 58.32% | 61.48% | 64.65% | 90.82% | 83.51% | 88.15% | 84.67% |

Data source: AMCC

The evolution of commercial debts, B2B type, counterbalanced the evolution of debts of individual borrowers, B2C type. In their case as can be seen from **Table No. 3**, collection agencies have shifted for the purposes of acquisition of such debts at the expense of the services offered to the creditors as a result of outsourcing. Consequently both numerically and in terms of value in the case of outsourced debts there has been a moderate trend, thus numerically weighted the share of the purchased debts in total has risen from 9.33% in 2013 to 17.67 percent in 2016 and in terms value from 24.87% to 61.48%. This was due mainly to the increase in the value of outsourced debts with more than 68% in 2016, towards 2013 and amid a more stable legislative climate for businesses. Another reason for which agencies have addressed this strategy was that the value of debt per case, assuming the debts of professionals borrowers is clearly superior to those who are individual debtors, consumers, thus following the debt collecting process, the value itself would be greater²². In terms of the value of collected debts B2B, those registered a level of about 94 million Euros, with over 84,500 cases. This was due to the increase in the volume of purchased debts, i.e. about 8% for national debts and 65% for international ones. In terms of the type of the collected debts, the largest share is held by international debts, about 47%, followed by purchased and outsourced national debts.

Similar to B2C debts, in the case of commercial debts, the sector that supplied most of the cases numerically is the telecommunications sector, with more than 44%. This sector also occupies the first place in terms of value, outpacing and banking and leasing sectors. An important element in the structure of these debts is represented by the share of the other sectors (agriculture, constructions etc.) which has recorded a 50% increase in the number of cases and an average value of 1050 Euro /case. Regarding the national and international banking sector are facing difficulties due to new European regulations, which had imposed as main policy minimizing the risk associated with non-performing loans. As a consequence, the share of this sector in total has not fluctuated in 2016 compared to the previous year.

4. Debts collection practices

The actions of debts recovery agencies differ according to the activity sector in which it seeks recovery of the non-performing debts. As a result of the new rules adopted in the field and the existent draft laws, that have

²² <http://amcc.ro/wp-content/uploads/2017/05/Piata-de-colectare-creante-2016.pdf>

the main purpose of collecting market regulation, will outline more clearly the debts collection actions they can undertake, but also the rights and obligations of the borrowers. We appreciate that the collection processes will be more expensive and will take place over a longer period of time, and this will get to a decrease in the yield of collection companies. Moreover, the legislation develops a series of best practices in the collection and transfer of debts.

The General principles on which any entity of recovery must comply are: *fairness, transparency and compliance*²³. According to a recent study of the International Finance Corporation²⁴, *the principle of transparency in relation to the debtors* contains the following: the VTS/recoverer to communicate all information in clear terms, to contribute to their financial education, in order to create all premises to be aware of the consequences of failure to comply their contractual obligations. The solutions offered to them must not be discriminatory. Negotiation must be based on good faith and privacy principles and that the main purpose of the mediation is to develop amicable solutions for debt recovery. These must take into account the real paying capacity of the borrowers and to pursue the restructuring of loans. Funding should be based on three pillars: (i) *providing a regulatory framework for consumer protection*, (ii) *empowering the supplier through voluntary commitments, market practices and work standards* and (iii) *interventions in the establishment and funding capacity enhancement and relationship with consumers*.

The regulation of this sector of activity can have two forms: one perspective providing absolute bans like contacting borrowers through their employer. Others establish rules of good practice on collection techniques themselves²⁵. The collection activity, regarded generally has two phases: judicial and extra-judicial. Judicial actions have as their main purpose starting a collection process by introducing a legal action. The extra-judicial cover a variety of informal actions undertaken to convince a debtor to pay a portion or the entire debt²⁶.

²³ AMCC code of conduct http://amcc.ro/wp-content/uploads/2016/01/Codul-de-conduita_romana_14.8x14.8cm_curbe1.pdf

²⁴ <https://www.ifc.org/wps/wcm/connect/587d25004a9f117795ebfdeec99f439e/Responsible+debt+collection-Final.pdf?MOD=AJPERES>

²⁵ Viktor Fedaseyev and Robert Hunt *The Economics of Debt Collection: Enforcement of Consumer Credit Contracts*-Working Papers Federal Reserve Bank of Philadelphia

²⁶ <https://www.thebalance.com/fair-debt-collection-practices-act-overview-960562>

| EXTRA JUDICIAL STAGE | JUDICIAL STAGE |
|---|--|
| <ul style="list-style-type: none"> - Indirect Negotiations (summons, written and telephone via email) - Direct Negotiation (payment commitments that have the purpose of debt rescheduling or partial debt submissions) - Communication summons - Collection information on the debtor and its heritage | <ul style="list-style-type: none"> - Preparing and filing actions in court - Preparation and submission to the client on the role of the bailiff/judiciary executor - Monitoring of enforcement |

In Romania, starting with august 2016, debt recovery agencies situation clarifies, that being obliged to authorize and endorse by ANPC, the obligation of record being provided up to 01.01.2017. Companies specialized in collecting debts provide the main services of recovery/collection of secured and unsecured debts from natural or legal persons, and secondly assist the bailiff/judiciary executor in the execution phase. We appreciate that the new practices will transform the debt collection industry, expanding the scope of application, thereby improving the efficiency of the market²⁷. The development of such practices aims diminishing of creditors' adversity toward risks. Otherwise, focusing on the protection of the credit industry could lead to a rise in interest rates and a decline in global credit supply²⁸. Any agency that carries out debt collection either on its own behalf or as a trustee should not resort to methods and techniques that contravene law and good morals. As a consequence, is therefore prohibited the use of force, of vulgar language or methods designed to harass the borrower. It is also forbidden to provide information, whether erroneous to third parties or any other non-interested person²⁹.

5. Conclusions

The debt collection market from Romania is a competitive and dynamic market oligopoly type, with an average degree of market concentration. Currently, there are 59 collection agencies registered with ANPC, out of which 17 are AMCC members. The top five such companies, which hold about 70% of the market is represented by KRUK

²⁷ Debts Collecting Consumers The Challenges of Change, Federal Trade Commission February 2009, pag. 11

²⁸ <http://www.acainternational.org/assets/research-statistics/aca-wp-role3rdparty.pdf>

²⁹ http://amcc.ro/wp-content/uploads/2016/01/Codul-de-conduita_romana_14.8x_14.8cm_curbel.pdf

Romania, EOS KSI Romania, Fire Credit, Top Factoring and Coface. Because the collection activity has as main object the relationship between the business environment and the consumers, the supervisors will have a predominant focus on the oversight of this sector regulating debt collection activities is a challenge from an economic perspective. The development of fair and transparent collection rules can support both borrowers and lenders through increasing access to credit and by reducing the cost of this process.

Within the economic sectors providing non-performing debts we have identified the telecommunications sector, with the largest share in debts that borrowers are natural persons. In terms of the number of outsourced debts, the banking sector ranks first place and in terms of value is followed by the NFI sector. In recent years we can observe a slight market growth, due to the tendency of the bank creditors to sell portfolios of non-performing loans, amid an increase in the credit cost. The utilities sector is also an important debt collecting sector from Romania.

In the year 2016 the total level of outsourced debts increased by about 45 percent compared to previous year. However, the increase in the level of collected debts was slower, only 29%. This was due mainly to the changes of national and European that gave rise to the need for the adjustment of the market, the policies and of collecting practices. Debts collection activity is oriented towards outsourcing of the national debts of individuals, considering that they hold the largest share in total, but also towards the purchase of international debts. As a result of these developments, the debt collection revenue increased by 39%. In terms of structural growth the increase of revenues generated by B2C claims was 2%, while those of B2B over 19%.

As a result of the new rules adopted in the field of debt recovery and collection agencies endorsement, at the moment the market will take a prudent stance. Thus the borrowers and the market entities will aim to adapt their behavior to the new changes.

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