

Level of Efficiency of Collection Techniques Used By Lending Institutions in Ermita, Manila

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Abstract: This study was undertaken to determine how efficient are the collection techniques used by lending companies in Ermita, Manila. The goal of the study was to determine the following: (1) the profile of the respondents in terms of years of operation, average receivables, ranking of collection priorities, bases in credit granting and bad debts avoidance strategies ? (2) the most used collection techniques adopted by the respondents ? (3) the way the respondents deal with delinquent accounts? (4) the average receivable collection period of the respondents? (5) the bad debts percentage of the respondents? (6) the level of efficiency of adopted collection techniques of the respondents in consideration of their realized: a) average receivable collection period : b) bad debts percentage? (7) significant difference on the level of efficiency of adopted collection techniques of the respondents in consideration of their realized : a) average receivable collection period : b) bad debts percentage? Further, descriptive research design was used in the study to know the responses of the lending institutions on their efficiency of collection techniques . A survey questionnaires were administered to 60 lending companies operating in Ermita, Manila to obtain and acquire the needed information. . Findings revealed that most lending companies are having a monthly average receivable of Php 1,000,000 and above and are prioritizing due debts in collection and have been operating for more than 6 years and a monthly average receivable amounting to P1,000,000 and above. Most of the lending companies try to avoid having bad debts by strict terms of condition placed on their customers, setting credit limits and customer checking. In order to collect customer payments, the lending companies follow-up their customer mainly through mails, or electronic transactions like calls often to remind them of their obligations. Results also indicates that the lending firms deal with delinquent and default payers by doing follow-ups once a month and calling repetitively. The firms accumulate their clients' debt within 60 days which indicate that they stand a 90% chance of collection. The lending institutions are efficient in 2 out of 2 parameters which are Average Receivable in Collection Period and bad debts percentage in measuring collection performance. Statistics shows that the accounts receivable period is nearer to one, hence it has more impact received from the level of efficiency of collection techniques. Further, there is no significant difference on the level of efficiency of adopted collection techniques.

Key words: Average receivable collection period, bad debt, collateral, credit cycle, credit line, delinquency, efficiency, mode of payment.

I. Introduction

The number of companies engaged in credit lending is multiplying these days. This is because of the reason of persistent demands of peoples' wants and needs, car , home, renovation, medical assistance , and etc.

A crucial component in a lending business is facilitation and management of collection techniques. Credit and collection strategies, if properly applied can help firms reduce Accounts Receivable balances and generate a substantial one-time cash flow. (Credit and Collections, 2015). Some borrowers hold their payment for as long as they can likely do so. This is an integral issue for lending institutions.

This study specifically seeks to measure how efficient are the collection techniques used by lending companies in Ermita, Manila

II. Statement of the Problem

This study aims to know how efficient are the collection techniques used by lending companies in Ermita, Manila. Specifically, the researcher ought to answer the following questions:

1. What is the profile of the lending companies in terms of:
 - a. Years in operation
 - b. Average receivables

- c. Ranking of collection priorities
 - d. Bases in credit granting
 - e. Bad debts avoidance strategies
2. What are the most used collection techniques adopted by the respondents?
 3. How do the respondents deal with delinquent accounts?
 4. What is the average receivable collection period of the respondents?
 5. What is the bad debts percentage of the respondents?
 6. What is the level of efficiency of adopted collection techniques of the respondents in consideration of their realized:
 - a. Average receivable collection period
 - b. Bad debts percentage
 7. Is there a significant difference on the level of efficiency of adopted collection techniques of the respondents in consideration of their realized:
 - a. Realized average receivable collection period
 - b. Bad debts percentage

III. Methodology

The descriptive method of research was used in the study to know the efficiency of collection techniques used. A survey questionnaires were administered to 60 lending companies operating in Ermita, Manila. The respondents are loan officers of the 60 lending companies providing service in Ermita, Manila. All of them were given questionnaires that were checked, reviewed, and assessed in order to understand the given queries.

IV. Results

1. Most lending companies are having a monthly average receivable of P1,000,000 and above and are prioritizing due debts in collection and have been operating for more than 6 years and have a monthly average receivable amounting to P1,000,000 and above. The firms prioritize collecting due debts and that their bases in offering credit to would-be clients are the customers' credit history and their assets, and the companies trust and confidence with its clients.

Most of the lending companies try to avoid having bad debts by strict terms of condition placed on their customers, setting credit limits and customer checking.

2. In order to collect customer payments, the lending companies follow-up their customer mainly through mails, or electronic transactions like calls often, to remind them of their obligations.
3. Results indicate that the lending firms deal with delinquent and default payers by doing follow-up once a month and calling repetitively. The non-bank lending institutions deal with delinquent payers by calling them repetitively.
4. Most of the lending institutions collect credits in due within 31 days and more.
5. The firms prioritize collecting due debts but still suffer to a range of 6%-10% bad debts.
6. The firms accumulate their clients' debt within 60 days which indicate that they stand a 90% chance of collection.

The lending institutions are efficient in 2 out of 2 parameters which are Average Receivable in Collection Period and Bad Debts Percentage in measuring collection performance.

The statistics shows that the Accounts Receivable period is nearer to one, hence, it has more impact received from the Level of Efficiency of Collection Techniques.

7. With the result of the statistical treatment done solely to the accounts receivable, showing an F-value of 21.39221 and F-critical value of 3.932438

There is no significant difference on the level of efficiency of adopted collection techniques.

V. Discussion

Table 1
Frequency and Percentage Distribution of the Respondents According to Years in Operation

Year	Frequency	Percentage	Rank
1-3 years	5	9.43%	3
4-5 years	16	30.2%	2
6 years or more	32	60.38%	1
TOTAL	53	100%	

Table 1 shows that most of the lending companies in Ermita, Manila is existing for more than 6 years which indicates that the companies manage to operate their business long. The results of the survey found out that 60.38% exist for more than 6 years, 30.3% for 4-5 years , and 9.43% for 1-3 years, and it turned out than no lending company in Ermita, Manila is operating in less than a year. According to “Credit & Collection Seminar” (2014) , effective and efficient managers view the credit and collection function as an overlooked profit maker. Without added investment, improving collection adds substantially to the bottom line. Being able to extend the right amount of credit to the right accounts can expand sales and profits at almost no expense and be able to maintain cashflows and continue its existence.

Table 2
Frequency and Percentage Distribution of the Respondents
According to Monthly Average Receivables

Receivables	Frequency	Percentage	Rank
P100,001-P500,000	8	15%	3
P500,001-P1,000,000	15	28%	2
More than P1,000,000	30	57%	1
TOTAL	53	100%	

Table 2 presents that most of the lending companies in Ermita, Manila is having more than P1,000,000 Monthly Average. The results of the survey found out that 57% is P1,000,000, 28% for P50,001-P1,000,000 , 15% for P100,001-P500,000 . This implies that most lending institutions are large which means a lot of debtors resort to borrowing. This was supported by De Luzon (2012), stated that we can expect more people wanting to borrow money, amidst the economic crisis our nation is facing.

Table 3
Frequency and Percentage Distribution of the Respondents
According to Ranking of Collection Priorities

	Frequency	Percentage
Due Debts	53%	100%
TOTAL	53%	100%

Table 3 shows that most of the lending companies in Ermita, Manila is prioritizing to collect due debts, which indicate that they give more emphasis in collecting maturing debts rather than past due debts and delinquents debts. The result of the survey found out that 100% are due debts, and none for past due debts and bad debts. This is supported by Credit Research Foundation (2010) which states that the primary job of the person responsible for collections is to collect the money as close to the terms of the obligations as possible.

Table 4
Frequency and Percentage Distribution of the Respondents
According to The Bases of their Company in Granting Credit

Basis	Frequency	Percentage	Rank
Credit History (Capacity)	53	100%	1.5
Asset (Collateral)	53	100%	1.5
Trust and Confidence (Character)	37	70%	2

Table 4 reveals that most of the lending companies in Ermita, Manila is based on the customer’s credit history and on customer’s asset in offering credit which implicates that the client should have sufficient asset and good record of credit history. The survey found out that 100% are based on the credit history and customer’s asset, and 70 % based on trust and confidence. This was supported by the Live Oak Banking Company (2015) that credit analysis by a lender is used to determine the risk associated with making a loan. Regardless of the type of financing needed, a bank or lending institution will be interested in both your business and personal financials. Credit analysis is governed by the 5 Cs Character, Capacity, Condition, Capital and Collateral.

Table 5
Frequency and Percentage Distribution of the Respondents
According to Bad Debts Avoidance Strategies

Methods	Frequency	Percentage	Rank
Accurate and Timely Invoicing	39	74%	2
Strict Terms and Conditions	53	100%	1
Customer Checking	53	100%	1
Setting Credit Limits	53	100%	1
By Giving Incentives / Discounts	31	58%	3

Table 5 presents that most of the lending companies in Ermita, Manila are using strict terms and conditions, customer checking and setting credit limits as their method to avoid bad debts which indicates that they are having policies with regard to their agreement with clients. As a rule , the longer the customer ages past due, the more frequently you should contact them and that involves customer checking, setting credit , Credit Research Foundation (2010)

Table 6
Frequency and Percentage Distribution of the Respondents
According to Collection Techniques

Collection Techniques	Frequency	Percentage	Rank
Electronic Transaction	27	50.94%	1
Through Mail	20	37.74%	2
Demand Letters	6	11.32%	3

Table 6 shows that most of the lending companies in Ermita, Manila is using electronic transactions as their major technique in collection. The results of the survey found out that 50.94% are through electronic transactions (telephone calls, etc) 37.74% are through mail, 6% through demand letters and none for door-to-door. This is in relevance with the statement that telephoning is your most cost-effective collection method. It’s fast, it gives you the opportunity to listen to what your customer has to say, and yet you are at your own desk with access to all the information that you need. (Credit Research Foundation, 2010).

Table 7
Frequency and Percentage Distribution of the Respondents
According to Dealing with Delinquent Accounts

Delinquent Accounts	Frequency	Percentage	Rank
Repetitive Calls to the Debtor	53	100%	1
TOTAL	53	100%	

Table 7 presents that most of the lending companies in Ermita, Manila do repetitive calls to the debtor in dealing with delinquent accounts. The results of the survey found out that 100% are on repetitive calls to the debtor. When you are dealing with a delinquent customer, expect some emotion from them. In this case, you should always observe good telephone manners. It’s okay to be understanding of a customer’s problems, but do not be side tracked by small talk or taken in by “hard-luck” stories. This is supported by the article written by Credit Research Foundation last 2010.

Table 8
Frequency and Percentage Distribution of the Respondents
According to Average Receivable Collection Period

Days	Frequency	Percentage	Rank
0-15 days	5	9.43%	3
16-30 days	21	39.62%	2
31 days or above	27	50.94%	1
TOTAL	53	100%	

Table 8 reveals that most of the lending companies in Ermita , Manila taking 31 days or above as their average receivable collection period which indicates that the institutions are having more than a month before they can collect their receivables. The results of the survey found out that 50.94% are 31 days or above, 39.62 % for 16-30 days and 9.43% for 0-15 days of average receivables. A positive evident of this is some studies indicate that your stand a 90% chance of collection within the first 60 days.

Table 9
Frequency and Percentage Distribution of the Respondents
According to the Estimated Percentage of Bad Debts

Percentage of Bad Debts	Frequency	Percentage	Rank
1% - 5 %	12	23%	2
6% - 10 %	38	72%	1
16% - 20 %	3	5%	3
TOTAL	53	100%	

Table 9 shows that most of the lending companies in Ermita, Manila have a 6% - 10% of bad debt which implicates that somehow they are having a good record of the estimated percentage of bad debt. The result of the survey found out that 72% are 6%-10% bad debt, 23% for 1%-5% and 5% for 16%-20%.

Table 10
Mean Level of How Efficient are the Collection Techniques
Of the Lending Companies

Collection Strategies	Weighted Mean	Interpretation	Rank
Average Receivable Collection Period	4.18	Efficient	1
Bad debts Percentage	3.57	Efficient	2
OVERALL MEAN	3.87	Efficient	

Table 10 reveals that the lending companies are efficient in 2 out of 2 parameters to measure collection performance which is 100% with the mean ranging 3.57 – 4.18.

Table 11
Significant Differences in the Level of Efficiency of the Collection Techniques
In Relation to Accounts Receivable Collection Period

SUMMARY

Groups	Count	Sum	Average	Variance
Variable 1	53	195	3.679245	0.798984
Independent Variable	53	233	4.396226	0.474601

ANOVA

Source Of Variation	SS	df	MS	F	P-value	F crit
					1.08E-	

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Between Groups	13.62264	1	13.62264	21.39259	05	3.932438
Within Groups	66.22642	104	0.636792			
Total	79.84906	105				

Since the computed F-value of 21.39259 is greater than the F-critical value of 3.932438, the researcher arrive at the statistical decision that the mean level of strategic efficiency in relation to average receivable collection period is not the same among the lending institutions.

VI. Conclusion

Based on the empirical findings the following conclusions were drawn:

1. The lending companies try to separate those clients they know, have a capability to pay off their debts from those that are likely to become default customers. Therefore, the researchers concluded that with strict terms and condition of giving credit and the prioritization of due debt, most of the lending companies can efficiently avoid uncollectable accounts.
2. The companies do follow-ups through mails/calls (electronic transactions) to remind their borrowers of their obligations .In this sense, the researcher concluded that the use of electronic transaction allows the lending companies to ensure that their overdue accounts will be paid.
3. With the use of systematic follow-ups of account, the lending companies were able to monitor their clients' obligation through telephoning. This ensures that all accounts receivable will be paid and it can also allow the company to try and revert their delinquent accounts back as receivables.
4. The lending companies have efficient collection technique because they are able to collect their receivables only within a month or so, which can be considered as fast.
5. It can be seen that even though firms try to collect due debts, there are still a considerable percentage which becomes bad debts, despite their efforts to collect these on time. Letting late payments languish can harm the company's chances of success and disrupt the firm's cash flow. Hence, the length of total time in structuring pay-outs should be as short as possible.
6. An efficient collection technique requires formal system that ensures overdue accounts get paid. The lower the percentage of the firm's bad debts, the more it shows their efficiency in collecting the accounts of their clients.

The researchers arrive at the statistical conclusion that the level of efficiency of collection techniques showed greater impact to the Accounts Receivable period compared with its impact to the Bad Debts Percentage.

7. There is a significant effect to the accounts receivable collection period with accordance to the level of collection technique used.

There is a significant effect to the bad debts percentage with regard to the level of collection technique used. Hence, how high or how low the period of collection and the percentage of bad debts have an effect on the efficiency of the collection technique used by the lending companies.

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