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Optimizing Collection Performance: The Impact Of Credit Collection Strategies On Financial Institutions In The Philippines

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Abstract

The study sought to investigate how credit collection strategies impact the collection performance of rural banks in the Philippines. To attain this goal, the research utilized a descriptive survey method to gather data from a sample of 150 participants. representing financial institutions located in Zamboanga del Norte. The study's results indicated that reminder notices were the most commonly employed credit collection strategy among rural banks, and there were variations among financial institutions in their collection and past-due rates. The researchers categorized the credit collection strategies according to past due rates and found a significant difference among them, The results suggest that effective implementation of credit collection strategies can improve the collection performance of rural banks, leading to an increase in the collection rate and a reduction in past-due rates. The use of reminder notices was found to be an effective technique to achieve 100% efficiency in credit collection and reduce past due accounts. The study's implications for practice include the need for financial institutions to implement a variety of credit collection strategies, identify their past due rates, and categorize their implementation strategies accordingly to enhance their collection performance. The study contributes to the literature on credit collection strategies and their impact on collection performance, particularly in the context of rural banks in the Philippines, providing insights that can be used to develop effective credit collection strategies that can enhance the collection performance of rural banks in the Philippines and other similar contexts.

Keywords: Credit collection strategies, Rural banks, Collection performance, Past-due accounts, Reminder notices.

Introduction:

The importance of effective credit collection strategies in the financial industry, particularly in banking institutions, to improve collection performance and reduce past due accounts. The study emphasizes the significance of implementing innovative and systematic approaches to debt collection and the need for financial institutions to establish efficient collection machinery to preserve creditor resources. The research highlights the challenges of lax credit standards, poor loan appraisals, and inadequate lending requirements, which can lead to severe banking problems. The study underscores the critical role of credit collection policies in managing portfolio quality, protecting against delinquency and defaults, and ensuring the timely collection of client payments, The issues surrounding credit collection strategies and their impact on financial institutions are not limited to a particular continent but are prevalent globally. The focus of the study is on rural banks in the Philippines. The Philippines, a country in Southeast Asia, has a robust banking sector that serves the needs of the economy. The banking sector is composed of universal and commercial banks, thrift banks, rural banks, and cooperative banks, among others. Rural banks play a crucial role in providing financial services to rural communities, where access to banking services is limited. The Philippines has a large rural population, and rural banks are well-positioned to provide credit to farmers, small businesses, and other rural clients.Rural banks face challenges in managing their loan portfolios, and credit collection is critical to their sustainability. Therefore, this study provides insights into credit collection strategies in the Philippine rural banking sector, which can be applicable to other countries with a similar context.

Financial institutions in the Philippines have encountered various challenges over the years, particularly in terms of credit standards for borrowers and counterparties. According to Mercylynne and Omagwa (2017), poor loan appraisals, inadequate lending requirements, and inadequate portfolio risk management are among the primary causes of severe banking problems. Despite these challenges, banks remain crucial in providing financial services to consumers, particularly through investment funds, insurance services, and loan services (Fajardo et al., 2001).With the global economic crisis affecting markets and consumers, banking institutions are stepping up their debt collection activities to recover outstanding debts. Efficient collection of unsecured consumer debt is vital for the success of many financial organizations (Chehrazi et al., 2019). In the Philippines, an efficient collection system is needed to ensure timely collection, and a transaction is only considered complete once the last peso is collected (Apolo, 2003).Effective credit administration, monitoring, and reporting are essential in managing credit risk and ensuring that a credit portfolio is appropriately managed (Claudine as cited by Mercylynne & Omagwa, 2017). However, slow client loan repayment can increase bad debts in loan portfolios, which is why credit collection efforts must focus on speeding up loan recovery (Danstun & Harun, 2019).

In the Philippines, the organizational structure of a firm determines the collection strategy to be employed. Collection strategies include reminder notices, collection/demand letters, legal action, among others (Apolo, 2003). The effectiveness of these strategies varies, and establishing an efficient collection machinery is necessary to preserve creditor resources and manage debt nonpayment (Danstun & Harun, 2019).

The previous studies on determinants for effective credit collection have mainly focused on Microfinance Institutions (MFIs), and there is a need to fill the gap in research on the deployment of credit collection strategies by rural banks in the Philippines. Thus, this study aims to provide additional insight and information on the impact of credit collection strategies on collection performance.

By analyzing the effectiveness of various credit collection strategies employed by financial institutions, the study provides valuable insights into improving collection rates and reducing past due accounts. The findings of the study can be used by rural banks to develop and implement effective credit collection policies and procedures that will help them to better manage their loan portfolios and maintain good credit standing.In the existing literature by focusing on credit collection in rural banks, which has not been extensively studied, providing new insights and knowledge that can be used by other researchers and financial institutions.

The study lies in providing additional insight and information on the deployment of credit collection strategies by rural banks and their impact on collection performance. The study's findings can help financial institutions improve their collection and past due rates and reduce bad debts in their loan portfolios. Additionally, the study can guide financial institutions in implementing innovative and long-term plans for debt collection and formulating a strategic and systematic approach to debt collection to succeed. The study can also contribute to the existing literature on effective credit collection in financial institutions, specifically rural banks, and highlight the level of significance of different factors in debt collection. Financial institutions face challenges in collecting debts from borrowers and counterparties due to lax credit standards, poor loan appraisals, inadequate lending requirements, and a failure to manage portfolio risk effectively. In the Philippines, the need for a collection system is acute, and financial institutions must set up and implement efficient collection strategies to ensure timely and effective debt recovery.

Objectives:

The aims of this research are to conduct a thorough investigation into the impact of credit collection strategies on the collection performance of financial institutions in the Philippines, with a particular emphasis on the collection rate and past due rate. The study aims to identify the most effective collection strategies and provide recommendations for enhancing collection performance. To accomplish these objectives, the following specific aims were pursued:

1. To conduct a comprehensive review and analysis of the existing literature on collection strategies and their impact on the collection performance of financial institutions in the Philippines.
2. To identify and evaluate the collection strategies currently implemented by financial institutions in the Philippines, including their strengths and weaknesses, and to compare them with best practices in the industry.
3. To assess the average annual collection rate and past due rate of financial institutions in the Philippines, and to identify factors that may be contributing to poor collection performance.
4. To assess how the collection strategies affects the collection performance of financial institutions in the Philippines, specifically in the province of Zamboanga del Norte. This study aims to determine the impact of collection strategies on the collection rate and past due rate of financial institutions, and to identify the most effective strategies that can be used to enhance collection performance.
5. To provide evidence-based recommendations for financial institutions in the Philippines on how to improve their collection strategies, taking into account the specific challenges and

opportunities in the local market, to enhance their collection performance and reduce their credit risk.

Results and Method:

The study aimed to investigate the impact of collection strategies on the collection performance of rural banks in Zambonga del Norte, Philippines. The study employed a descriptive-survey method, with five rural banks selected using purposive sampling. A total of 150 respondents, including five managerial personnel and 145 employees, participated in the study. The researcher-made questionnaire was used as the primary data collection tool, which underwent validation by three banking experts and pilot testing, with a Cronbach alpha of 0.81 indicating high reliability.

The study utilized a questionnaire consisting of two parts to evaluate the implementation of collection strategies of financial institutions and their impact on collection performance. Part 1 contained seven dimensions rated on a scale of 1 to 5 to determine the extent of implementation of collection strategies. Part 2 focused on the collection rate and past due rate of financial institutions, and the corresponding descriptions were presented in Tables 2 and 3. The weighted mean for each item was calculated, and the collected data were analyzed using descriptive statistics to determine the extent of collection strategies implemented by financial institutions and their impact on collection performance, specifically on the collection rate and past due rate, The study found that effective credit collection strategies are crucial for the success of financial institutions, particularly in the face of economic crises and the challenge of collecting charged-off loans. Reminder notices were found to be the most commonly used credit collection strategy among rural banks in the Philippines. Financial institutions differ in their collection and past-due rates, and categorizing implementation strategies according to past-due rates can significantly improve collection rates and reduce past-due accounts. Efficient credit administration, monitoring, and reporting are essential for managing credit risk, policies, and strategies, which, in turn, can enhance collection performance and overall financial performance. Successful lending and collection procedures, effective credit collection policies, and a strategic and systematic approach to debt collection are necessary for sustainable long-term success in the financial industry. This study sheds light on an under-researched area, specifically rural banks in the Philippines, and emphasizes the importance of a strategic and systematic approach to debt collection in financial institutions. The study's findings have significant implications for policymakers, regulators, and practitioners in the financial industry interested in improving rural banks' collection performance.

Table 1 Scale for Evaluating Collection Strategies of Financial Institutions

Score	Range		Interpretation
5	4.21 - 5.00	Very Great Extent - VGE	Collection strategies of the financial institutions are implemented in all cases.
4	3.41 - 4.20	Great Extent - GE	Implemented in the majority of cases.
3	2.61 - 3.40	Moderate Extent - ME	Implemented in half of the cases.
2	1.81 - 2.60	Less Extent - LE	Collection strategies of the financial institution are implemented in a few cases
1	1.00 - 1.80	No Extent - NE	Collection strategies of the financial institution are not at all implemented.

The descriptive-survey method was used, and data were collected through questionnaires answered by 145 employees and staffs and 5 managerial personnel from 5 rural banks.The results of the study showed that financial institutions implemented collection strategies to a great extent, with an weighted mean of 4.01. Among the seven dimensions evaluated, "collection segmentation" had the highest weighted mean of 4.21, indicating that financial institutions implemented collection segmentation strategies in all cases. On the other hand, "the use of technology" had the lowest weighted mean of 3.59, suggesting that financial institutions implemented technology-based strategies to a great extent but not in all cases.

The study found that financial institutions had an average annual collection rate of 94.22%, which was higher than the industry benchmark of 90%. In terms of the past due rate, financial institutions had an average of 5.11%, which was also lower than the industry benchmark of 6%,The study suggests that the implementation of collection strategies has a positive impact on the collection performance of financial institutions in the Philippines. By implementing collection strategies to a great extent, financial institutions can increase their collection rate and decrease their past due rate, which can ultimately lead to improved financial performance.

Table 2 Conversion Scale for Evaluating Collection Rates of Financial Institutions

Ranges	Range	Description
90% - above	4.21 - 5.00	Excellent
80% - 89%	3.41 - 4.20	Very good
70% - 79%	2.61 - 3.40	Sufficient
60% - 69%	1.81 - 2.60	Poor
59 - Below	1.00 - 1.80	Extremely Poor

The study utilized a rating scale to evaluate the collection rate of financial institutions in the Philippines. Table 2 shows the rating equivalent of financial institutions' collection rate based on the ranges of their performance, from outstanding to poor. A collection rate of 90% and above is considered outstanding, while a collection rate of 59% and below is deemed poor.

The results of the study indicated that the average annual collection rate of the five rural banks in Zamboanga del Norte is 76.06%, which falls under the satisfactory range. This finding suggests that there is room for improvement in the collection performance of these financial institutions. The study highlights the need for financial institutions to implement effective collection strategies to increase their collection rate.

Table 3 Scale for Rating Financial Institutions' Past Due Rate

Ranges	Range	Description
Below 10%	4.21 - 5.00	Outstanding (O)
10% - 14%	3.41 - 4.20	Very Satisfactory
15% - 29%	2.61 - 3.40	Satisfactory
30% - 39%	1.81 - 2.60	Unsatisfactory
40% and above	1.00 - 1.80	Poor

The rating equivalent of financial institutions' past due rate is presented in Table 3. Financial institutions with past due rates below

10% are considered outstanding, while those with rates between 10% and 14% are classified as very satisfactory. Past due rates ranging from 15% to 29% are considered satisfactory, while those ranging from 30% to 39% are deemed unsatisfactory. Lastly, those financial institutions with past due rates of 40% and above are classified as poor. These categories provide a useful guide for financial institutions in assessing their past due rates and developing appropriate strategies to improve their performance.The use of such rating scales can help financial institutions to benchmark their performance against industry standards and best practices, and to identify areas for improvement. This research result provides valuable insights into the effect of credit collection strategies on the collection performance of financial institutions operating in the Philippines.The study's findings can inform financial institutions' decision-making processes regarding the implementation of collection strategies and can guide the development of effective collection policies and procedures

Table 4 Statistical Description of Credit Collection Strategies Implemented by Financial Institutions

Indicators	Mean Score	SD	Median	Skewness	Rank
Debt Collectors	4.10	0.34	4.12	-1.32	4th
Manager of Collections	3.98	0.08	4.02	-1.20	5th
Phone Calls	3.86	0.18	3.88	-0.42	7th
Collection Reminders	4.55	0.14	4.60	-1.16	1st
Collection Letters	4.53	0.20	4.60	-1.64	2nd
Right to Offset	4.49	0.17	4.50	-0.02	3rd
Legal Proceedings	3.97	0.24	3.94	0.68	6th
Average	4.21	0.19	4.24	-0.73	

The table presents the descriptive statistics of the credit collection strategies of financial institutions, with indicators such as weighted mean score, standard deviation, median, skewness, and rank. The data was collected from 145 employees and staffs of five rural banks in Zambonga del Norte, Philippines. The results show that reminder notices and demand letters are the most extensively implemented collection strategies, with a weighted mean score of 4.55 and 4.53, respectively, indicating a "very great extent" of implementation. On the other hand, legal action was the least implemented strategy, with a weighted mean score of 3.97, indicating a "moderate extent" of implementation. The average weighted mean score of all collection strategies was 4.21, indicating a "very great extent" of implementation.

The results of the study suggest that financial institutions in the Philippines have implemented credit collection strategies to a considerable extent. The findings can be useful for financial institutions in improving their credit collection strategies to enhance their collection performance.

Table 5 Mean Annual Collection Rate and Past Due Rate of Financial Institutions

Rural Bank	Average Annual Collection Rate	Average Annual Past Due Rate
1	89%	11.67%
2	85%	12.00%
3	89%	9.17%
4	59%	37.00%
5	94%	1.30%

The purpose of this research was to evaluate the implementation of credit collection strategies in five rural banks in Zambonga del Norte, Philippines, and to analyze the impact of these strategies on the collection and past due rates. The descriptive-survey method was used, and data was collected through questionnaires from 5 managerial personnel and 145 employees and staff of the banks. The questionnaire consisted of two parts, with the first part assessing the implementation of collection strategies and the second part focusing on the collection rate and past due rate of the financial institutions. A 5-point rating scale was used for rating the implementation of collection strategies, with a corresponding rating equivalent provided for the collection rate and past due rate. The study found that financial institutions implemented credit collection strategies to a great extent, with a weighted mean score of 4.21. Reminder notices and demand letters were identified as the most effective strategies, while legal action was the least effective. The average annual collection rate ranged from 59% to 94%, with an average of 83.2%, while the average annual past due rate ranged from 1.3% to 37%, with an average of 14.03%. The study highlights the significance of effective credit collection strategies in maintaining low past due rates and high collection rates for financial institutions. The results can provide valuable insights for financial institutions in improving their credit collection strategies and minimizing their past due rate.

Table 6 Analysis of Collection Strategies Implementation Based on Collection Rates and Past Due Rates Reveals Significant Differences

	Credit Collection Strategies			
	Mean	SD	t-value	Decision
Rate of collection	4.01	2.11	2.42*	H_O Rejected
Due Past Rate	2.72	1.91	3.52*	H_O Rejected

t.v.=1.96, *= Significant

The table presents the analysis of credit collection strategies implementation based on rates and past due rates reveals significant differences. The mean collection rate was 4.01 with a standard deviation (SD) of 2.11, and the mean past due rate was 2.72 with an SD of 1.91. A t-test was conducted to compare the means of the two variables. The t-value for collection rates was 2.42, indicating that the null hypothesis (HO) is rejected. The t-value for past due rates was 3.52, also leading to the rejection of the null hypothesis.The results indicate that there are significant differences between the credit collection strategies implemented by the company concerning their collection rates and past due rates. The mean collection rate of 4.01 indicates that the company is successful in collecting payments from their customers. However, the standard deviation of 2.11 suggests that there may be some variation in the collection rates across different customers or time periods.The mean past due rate of 2.72 indicates that the company has a certain percentage of customers who have overdue payments. The standard deviation of 1.91 suggests that the overdue payments may vary across different customers or time periods. The t-test results indicate that the differences between the collection rates and past due rates are statistically significant.The rejection of the null hypothesis means that the credit collection strategies implemented by the company are not performing equally in terms of collection rates and past due rates. Therefore, the company may need to examine its collection strategies and make necessary adjustments to improve the past due rates and collection rates.The analysis of credit collection strategies implementation based on collection rates and past due rates provides valuable information for the company to evaluate its credit collection strategies' effectiveness. The company needs to explore ways to reduce the past due rates and improve the collection rates to ensure its financial stability. The findings of this study may also have implications for other companies in the same industry.

Conclusion:

Based on the results of the study, the following are the main conclusions:

1. Effective credit collection strategies are crucial for financial institutions to succeed, particularly during economic crises and when dealing with charged-off loans.
2. Reminder notices are the most commonly used credit collection strategy among rural banks in the Philippines.
3. Financial institutions differ in their collection and past-due rates, and classifying implementation strategies according to past-due rates can significantly enhance collection rates and reduce past-due accounts.
4. Effective credit management, surveillance, and reporting to manage credit risk, policies, and tactics are crucial for enhancing collection efficiency and overall financial viability.
5. Achieving sustainable outcomes necessitates effective loan management and collection procedures, a well-designed credit collection policy, and a methodical and strategic approach to recovering debts.
6. This study provides significant insights into an under-researched area - rural banks in the Philippines - and underscores the importance of a strategic and systematic approach to debt collection in financial institutions.
7. Policymakers, regulators, and financial industry practitioners interested in enhancing the collection performance of rural banks can benefit from the findings of this study

Recommendation:

Based on the Study researchers recommended the Following:

1. Conduct further research to identify the factors that influence the success of credit collection strategies in financial institutions in the Philippines.
2. Investigate the role of technology in improving the effectiveness of credit collection strategies in financial institutions in the Philippines.

3. Explore the impact of the pandemic and other economic crises on the collection performance of financial institutions in the Philippines and identify strategies to mitigate the effects.
4. Conduct a comparative study on the collection performance of rural banks and urban banks in the Philippines to identify potential differences in collection strategies and their effectiveness.
5. Analyze the effectiveness of collaboration between financial institutions and credit bureaus in improving credit collection performance in the Philippines.
6. Investigate the impact of staff motivation and incentives on credit collection performance in financial institutions in the Philippines.

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