The Debt Review

2015

surprise

[ser-prahyz]

NOUN

1. An unexpected or astonishing event, fact, etc.

"Surprise represents the difference between expectations and reality, the gap between our assumptions and expectations and the way that those events actually turn out."

In life, we all know there are good surprises and bad surprises – yet, even given this is the case, some people just don't like surprises at all.

When it comes to managing debt and consumer experience of being in debt, we are right with those who don't like surprises. Whether it concerns processes, insight or outcomes, we believe surprises are a bad thing.

So, in this edition of The Debt Review, we look at how to take surprise out of the recovery of debt – through the use of more data, the right partner and the right product (our latest product, VENDO: Post Sale Manager, epitomises our desire to improve the flow of knowledge between creditors and their suppliers and partners).

So, where are the gaps in your processes and knowledge? And how do you plan to close them?

IN THIS ISSUE

TDXGROUP
An Equifax company

THE BEST VIEW IN THE HOUSE

Recovery strategies have, traditionally, not had the same focus or investment as credit risk. With the advent of increased regulatory focus that needs to change. Whether you are acquiring or retaining a customer, or looking to recover money owed, the insight and disciplines required are much the same.

Lending, marketing and managing – retaining a profitable relationship.

An extract from an article by Paul Birks, Decision Solutions Director at Equifax

An individual's ability to repay isn't just a view of his or her salary. Nor is it simply an assessment of incomes, outgoings or bank balances. Instead, it requires a 360° view of assets, investments and other elements that together constitute the overall wealth of an individual or household. However, 95% of affordability assessments are solely based on income and expenditure. This doesn't allow insight into other assets that could be considered when undertaking credit checks and can cause problems for those who may want to get credit or services that rely on a credit check, but who don't demonstrate the appropriate levels of income. Understanding an individual's wealth as well as liquidity is vital for organisations if they really want to understand their customers.

There is a big difference between a customer who owns a big house mortgage-free and one who owns a similar-sized house with a large mortgage still on it. The former has asset-backed wealth, but this is rarely considered when affordability assessments are carried out. At the application stage it is recognised that lenders need to get as complete a view of their customer as possible and then make a decision. However, this becomes more complex – and actually more relevant and important – in managing the customer lifecycle.

> …this is not just about a single point in time; it's an ongoing conversation.

At both the acquisition and retention stages of the customer lifecycle, there are two questions lenders need to ask: 'What does the customer want?' and 'What am I willing to give them?'. Understanding the answers to these questions should form the development of an ongoing conversation between the organisation and the customer which has the potential to deliver a better service and improve perational performance.

> It is becoming more evident that financial requirements are based on the needs of a family.

No man is an island

But who, really, is the customer? Depending on the market and product, this can differ. In risk assessment, the focus is usually on the risk and affordability of an individual. But often a review of the individual will fail to answer one of the key questions: 'What does the customer want?' For example, there are many instances when my wife and children inform me about what we need, often without my knowledge! Only this summer I was looking for a phone for my son as he is going to senior school. When I went into my current mobile phone provider, they were unable to see me as a 'family member' and viewed my application as my third (after my applications for my current tablet and phone). They could not see me as a member of a high technology, high-usage family of four. In the end, following the lack of understanding of my circumstances and needs, I went to another network.

This isn't unique to telecoms; many financial requirements are based on the needs of a family. For example, in more traditional credit, while an individual may make an application for a loan for a new car, the need for this purchase will often be based on the requirements of the family. Therefore, while judgements and decisions are usually based on 'what the consumer wants', behaviour is usually driven by 'what their family needs'.

Understanding the customer as a 'buying unit', one influenced by others as well as by the macro environment, can enable organisations to look after those they want to look after and who want to be looked after by them. Being able to align customer needs with organisational 'offers' can help improve marketing and targeting, drive down acquisition and retention costs, and reduce churn. Being informed as to the needs of their customers thanks to insights into their credit behaviour and any change of circumstances, such as moving house. This is the true definition of 'knowing your customer'. But beware: this is not just about a single point in time; it's an ongoing conversation.

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The full article was printed in Equifax UK's client magazine, Perspective. To subscribe, please contact perspective@equifax.com.

Recovery: making the conversation work in tough times, too

By Carlos Osorio, Director UK Recoveries Management

When a customer goes into arrears, we believe you have to put even more effort into the conversation (much like any relationship that's going through a rocky patch!). Not only has something gone wrong, perhaps in your assessment of the risk associated with lending to this individual, or something in their personal or financial circumstances, but now third parties such as debt management organisations could be involved, too. As Paul said in his article, it's an ongoing effort to have the right conversation.

Having been acquired by Equifax in January 2014, here at TDX Group we've been looking at how we can access even more bespoke and unique data to ensure the recovery strategies we apply for our clients are informed by a full view of the consumer.

For the last few years the industry has been, quite rightly, focused on delivering fair outcomes to consumers once the conversation has started. But much of the challenge in debt collection and recoveries is trying to connect with those consumers who, for whatever reason, may be avoiding you and do not seem to want to talk. At TDX Group we believe data holds the key to improving the chances of having a conversation and then improving the quality of that conversation to reach an appropriate and fair outcome.

- It's about what you know.

  Access all available data to know your consumer before even making contact and use this to define your next steps.
- It's about what you do.

  Use the data to create truly differentiated treatments paths, adapting how contact is made, tailor the content and tone of communications.
- It's about being understanding.

  Use the data to 'put yourself in their shoes' to demonstrate empathy with the situation and a desire to solve the customer's problem.
- It's about being flexible.

  Be willing and able to change approach, adapting your actions based on new data, whether from the conversation or new data sources.
- It's about what to do better next time.

  Results based analysis will tell you whether there is room for improvement next time round.

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COMPANY NEWS

Senior appointments

Head of Compliance, TDX Group

Jonathan Staward has been appointed Head of Compliance. Jonathan has extensive experience in the financial services and general insurance sectors, joining TDX Group from Barbon Insurance. Prior to that, he was Senior Compliance Manager at Citigroup.

Through his career, Jonathan has specialised in operations management, credit risk, and branch management covering a number of consumer related products.

UK Risk Officer, Equifax UK

Sarah Christman has been appointed UK Risk Officer, covering Equifax UK, including TDX Group. Previously Senior Compliance and Risk Officer for TDX Group Sarah has also held the position of Compliance and Business Risk Officer for Capital One.

Global Marketing Director, TDX Group

Mike Stanley has been appointed Global Marketing Director. Mike joins TDX Group from Ageas where he held the positions of Change and Development Director and Acting MD. Mike has vast experience of operations, marketing, strategy and change within diverse financial services companies.

Chief Information Officer, TDX Group

John Keelan-Edwards has been appointed CIO for TDX Group. Previously, John worked for Equifax for four years and prior to that Univar, SSL, Royal Mail and ING Barings. John has extensive experience in IT procurement, contract management, service management and implementing strategic infrastructure projects for multinational companies.

FCA application

We are pleased to confirm that we have successfully submitted our application for full FCA authorisation. We will keep you updated on any developments through your usual contact, however, due to the number of applications that have been submitted the FCA has advised it could be up to three months before they review our submission and we have a dialogue with them.

Our new business: meet Indesser

In December 2014, TDX Group, backed by Equifax, was selected to set up a joint venture with the UK government, to provide Departments with access to the best in class private sector solutions in support of debt collection activities.

The new business, called Indesser, launched on 20 July 2015. It is headed up by Adrian Crean and will be run independently, with TDX Group acting as a key supplier to deliver liquidation results and fair consumer treatment.

Separate IT infrastructure and instances of our technology platforms have been established to serve the new business without impacting existing client service delivery.

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TDX Group security news

In June, TDX Group was re-certified to ISO27001. This certification includes the requirement for an independent annual audit. In addition, we also work with IRM Plc who carry out annual penetration tests to make sure that our systems are suitably secure to process consumer data on behalf of our clients. Their consultants are certified to the commercial 'CREST' and UK Government 'CHECK' penetration testing schemes. While security standards such as PCI DSS require companies to carry out automated scans for vulnerabilities in computer networks and IT systems, we believe that adequate assurance can only be gained by introducing independent human intelligence to the process.

Make the Connection

Thank you to all our clients and partners who support our work in the community – together, we have made a difference.

The contribution we have made in the last 12 months has been recognised in two awards:

- Employee Volunteering Business: Business in the Community Awards.
- Contribution to the Community Award: Nottingham Post Business Awards.

MAKE THE CONNECTION
Everybody wins.
www.tdxgroup.com/csr

Charity Ball

At last year's charity ball we raised £40,000 for The Ear Foundation, a Nottingham-based organisation that helps people adapt to having a cochlear implant.

This year our ball will be held on **Thursday 8 October** to raise money for **Nottinghamshire's Children's Bereavement Centre** based in Newark-on-Trent. It is a unique centre where children, young people and their families from Nottinghamshire who are affected by terminal illness, death or the divorce or separation of someone close, can access the support and guidance they need.

If you are interested in buying a table at the event, or you know anyone who could donate raffle and auction prizes (minimum value of £10) contact kate.matthews@tdxgroup.com.

New!

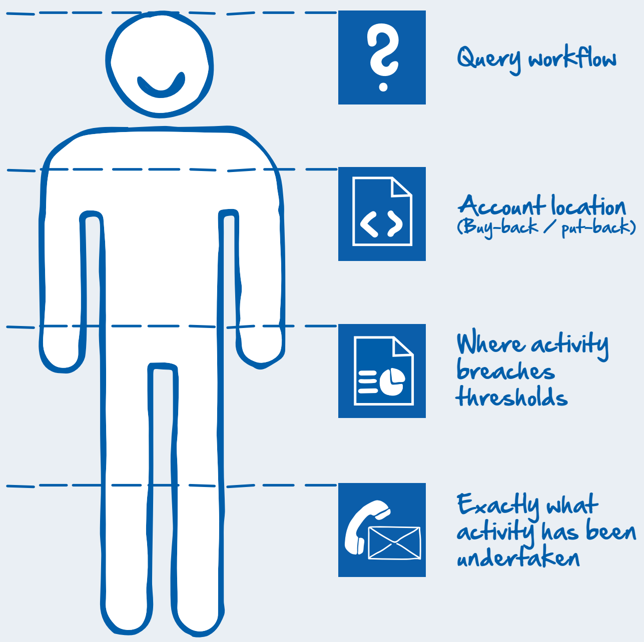
Get personal

Make sure you have the most up-to-date view of your customers, post-sale.

VENDO: Post Sale Manager transforms your ability to proactively and efficiently manage the customer experience, post-sale.

- ✓ Control risk.
- ✓ Manage the customer outcome.
- ✓ Access up-to-date management information and audit trails.
- ✓ No resource overhead.

With VENDO, data is updated weekly and is accessible at the click of a button.



Keep close to your customers, post-sale.

Talk to us to find out more.

Paul Verner 0791 860 1788 I www.tdxgroup.com

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Improving consumer experience through debt sale

Did you know that around 75% of consumers that fall into default each month already have a relationship with a debt purchaser?

By Stuart Bungay, Director of International Expansion, TDX Group

Debt sale has been a critical part of the UK collections and recoveries industry over the last 10 years and during this time there has been much change. For example:

- The purchaser community has led the way in the use of data and technology which has resulted in an increase in volumes of longer-term, sustainable, payment plans compared to settlements.
- Significant market consolidation has reduced the number of purchasers to a handful of highly professional (and in some cases multi-national) organisations.
- New sellers in new sectors are using debt sale as a tool to assist in the overall management of recoveries.
- Regulatory oversight has grown in importance, along with a real focus on fair treatment.

However, the sale process has remained largely the same, with sellers arbitrarily choosing which portfolios to sell based on some form of stage-in-process trigger. These portfolios are then placed in the market on a forward flow or spot basis and then sold competitively, based on a combination of price and purchaser compliance. Given the small number of highly professional and compliant buyers in the market, this usually comes down to which purchaser offers the best price. In spite of the positive changes, does this sale process really take into account the impact on individual consumers? And is enough known about what happens to the consumer post-sale? Is the experience of being in debt, better or worse after sale?

I would argue that now the gap between the practices of sellers and purchasers has closed, it is at best a neutral experience. However, we believe there is a much better way to conduct a debt sale that will improve outcomes and experience, and returns for both buyers and sellers.

Our research [ref fig 1] suggests that for most medium and large banks and financial services companies, around 75% of the consumers that fall into default each month already have a live relationship with a debt purchaser. Assuming an even distribution of this 75% across the top five UK purchasers would mean that if you sell this as forward flow to any single buyer then less than 20% of these consumers would have an existing relationship with that buyer.

So what about the other 50-60%? Well, for these people the outcome is far from satisfactory. They have already had at least one of their debts sold to a third party and are now engaging with that third party and may already be in a successful paying arrangement. Now a further party contacts them to commence payment on another debt. This is far from ideal in terms of experience, potentially leaving them feeling overwhelmed and unable to cope.

Figure 1: Analysis of consumers in default and their existing purchaser relationships.

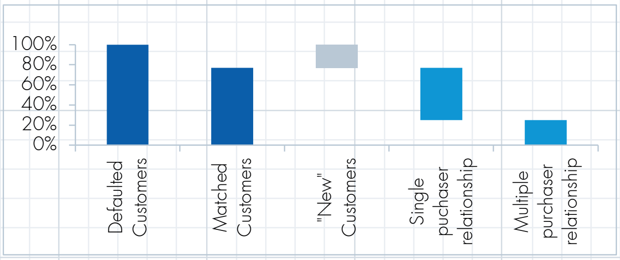

Figure 1 shows how a typical portfolio breaks down, with around 75% of accounts being matched to a purchaser. The column on the far right shows the overlap that exists where consumers have relationships with more than one purchaser. In this case, identifying the strength of each of the current engagements is key to delivering a better outcome for all; when a consumer is managed by fewer more engaged organisations a more complete understanding of their circumstances enables fair treatment.

Undoubtedly all parties in the debt sale market at present are focused on delivering the best outcome possible within the current sale process, but we believe the process could be better tailored to the individual consumer. It is, already, perfectly possible that the sale of the right account, to the right purchaser could result in a far more positive outcome and experience. It is time for creditors to take responsibility, up front, to put consumer outcome at the centre of the sale strategy – rather than trying to ensure it is fair after the event.

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TDX Group insight

On our blog (www.tdxgroup.blogspot.co.uk) we discuss many topical matters for the debt industry. Here's a selection of our recent posts.

I'm launching my very first product!

Extract from 25 June post

At TDX Group we've been working in the debt sale market for over a decade, helping creditors prepare debt for sale to a panel of approved purchasers. What had become increasingly clear was there were growing challenges – largely centred on the desire of sellers to gain more oversight of accounts and consumer outcome after sale … so, we've created **VENDO: Post Sale Manager**.

It's a web-based system that addresses these challenges via data and technology. Activity data will be updated weekly and accessible at a click of a button so sellers will be able monitor what's happening to their customers and see automatic reports on exceptions to agreed activity. Reconciliation of all account ownership will be available and up to date.

I think what excites me most about this – apart from it being new and shiny – is that I believe it is a solution which benefits all. Not only the seller and purchaser, but the consumer, too.

By Andy Taylor, Head of Product – Debt Sale, TDX Group
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What's stopping us from being both fair and effective?

Extract from 22 April post

When it comes to debt recovery, is there a choice to be made between a fair outcome and collecting cash? … A fair outcome does not mean simply pleasing the consumer and it shouldn't mean collecting less cash. In collecting cash fairly, I believe it will also be more effective in the long-run. So, is there anything stopping us doing this today?

I guess there is the matter of who pays for those cases where no cash is collected even if that is the fairest outcome. The favoured commercial model for the industry today is Payment by Results (the results being cash collected). Can this continue if we aim to achieve a fair outcome for all?

By Charlotte Mather, Head of Third Party Commercial, TDX Group
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Recycling … is it the future or a load of old rubbish?

Extract from 10 March post

In our personal lives, we all now accept that recycling is 'the right thing to do', which got me thinking about recycling in the world of debt collection. Do we need to be more discriminate around what gets recycled?

In the world of collections and recoveries a single account can be recycled many times. What value can that process really add? Perhaps the value comes from additional data being used to make contact? Maybe, it is down to a different approach being taken by the agency to engage with the customer. Shouldn't we assess the impact of the previous activity and decide how best to manage that account through the next stage of recoveries?

One thing is for sure, recycling certainly shouldn't be all about applying additional activity of the same type.

By Charlotte Mather, Head of Third Party Commercial, TDX Group
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Card processing costs could double in 2015 for UK debt industry

Extract from 29 January post

In 2013 the EU decided to cap interchange costs at 0.3% for credit cards and 0.2% for debit cards and this is now being implemented for all domestic card processing during 2015. Although this cap applies only to the rates paid between the banks, with merchants always paying an additional margin or fees on top, clearly the EU is hoping some of the reduction will be passed on to merchants. Estimates suggest this could total a £1 billion annual saving for UK merchants and as much as £10 billion across the entire EU.

This should be good news shouldn't it? Not so fast.

Debit card processing is typically a pence per transaction fee, so in response to the % cap it's anticipated most, if not all, UK acquirers will switch to a predominantly %-based fee. This might be good news if you take lots of smaller payments, but not so much if you take larger payments. Roughly speaking transactions above £35 will pay more in fees.

And that's not all. Payments taken over the telephone (classed as 'customer not present' or CNP) will be deemed non-secure and will be subject to an additional charge.

The debt industry's card processing is predominantly conducted over the telephone (90%), mostly debit card (95%) and an average transaction value typically between £50-100. On that basis, it is quite possible that most UK creditors and debt collection agencies card processing costs could double.

By Sajid Hussain, Business Development Manager, TDX Group
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DEBT INDUSTRY NEWS

Our round-up of some of the headlines from the past few months

PERSONAL INSOLVENCY

With some fundamental changes being made to bankruptcy, what will be the impact?

Making it easier for consumers to go bankrupt …

The Insolvency Service has confirmed that when an individual petitions for bankruptcy online in future they won't need sign off from an insolvency practitioner. The aims of this change is that it will be easier for those in debt to make bankruptcy petitions and that court time will be reduced. The Insolvency Service will take on several new responsibilities this year, of which one will be replacing the court's role in making bankruptcy orders on debtor petition cases.

… but harder for creditors to start proceedings?

It was announced in January that from October 2015, creditors must be owed a minimum of £5,000 before they can start bankruptcy proceedings. The current minimum is just £750. Figures released by the Insolvency Service show that 15 per cent of bankruptcy orders were made for debts of less than £5,000 last year – that's 785 of the 5,235 total creditor petitions for bankruptcy. Accountancy firm, Moore Stephens, said that local authorities and housing associations, which often suffer numerous small debts, are likely to be hit particularly hard by this change as the need to take action seems to be on the rise. Their study found that 32 per cent of local authorities in Great Britain used bankruptcy orders to recover council tax arrears last year, a rise from the 20 per cent that took this action in 2009/2010.

Sources:
Insolvency Service outlines plans for bankruptcy orders, 10 June 2015, Credit Today
Bankruptcy changes will 'hit councils hardest', 16 June 2015, Credit Today
Councils step up bankruptcy orders amid "unsustainable" tax debts, 29 June 2015, Credit Today

TDX Group comment:

"Changing petition levels will always be a compromise and some creditors, especially those with small liabilities will be driven to reach informal arrangements with consumers or to pursue repayment through court action. However, creditor petition levels had been unchanged since 1986, so after nearly 30 years it was time to review the structure to reflect the lending profiles and debt solutions that we see today.

TDX Group always supports improving access to solutions and in bankruptcy reducing the overhead of the court is a positive move."

MARKET CONSOLIDATION

The pace of consolidation in the market doesn't seem to be letting up. In the debt purchaser market it offers some potential benefits to consumer experience.

Aquisitions

Cabot Credit Management (CCM), the UK's largest debt purchaser, has acquired debt recovery litigation firm Mortimer Clarke Solicitors. Ken Stannard, CEO of Cabot Credit Management, said: "This is a significant addition for us because it allows CCM to provide an end-to-end credit management lifecycle." CCM said in a statement it will "continue to use its careful decision making processes to litigate only as a last resort."

European debt purchaser Hoist Finance has acquired Milton Keynes-based debt purchaser Compello Group, picking up a portfolio representing £218 million in 10-year Estimated Remaining Collections (ERC), and 178 staff.

Compello, which has been providing collection services since 2003, and became a debt purchaser in 2010, held a portfolio of more than one million agreements at the time of acquisition, originated by more than 19 creditors and representing around £2.6 billion in face value (as of October 2014). Some 90% of Compello's portfolio comprises consumer loans.

Sources:
Cabot buys litigation firm, 02 July 2015, Credit Today
Hoist buys Compello, 02 July 2015, Credit Today

TDX Group comment:

"For some time debt purchasers have led the way in using data and technology to inform collection strategies, pinpointing those consumers who are able to pay. This, combined with market consolidation, has created a handful of highly professional organisations who have every opportunity to improve the consumer experience of being debt. Gone are the days where the objective of purchasers was to extract as much money from their investment in the shortest time possible."

Read more on our analysis of consumers in debt and existing relationships with debt purchasers on page 6.

REGULATION

While there is a steady flow of organisations receiving full FCA authorisation, the FCA's recent annual report highlighted the extent of the action they have taken in the last 12 months where they have found practices lacking.

The FCA's annual report revealed that 12 firms have exited the consumer credit market in the past year – and that action has been taken against 24 debt management firms.

The report shows the effects of FCA action since it took over consumer credit regulation, revealing that its early intervention has also resulted in 22 requirements to stop or change lending and debt collection practices.

Sources:
FCA published annual report for 2014/15, 2 July 2015, CCR
Twelve consumer credit firms have thrown in the towel, 3 July 2015, Credit Today

TDX Group comment:

"None of us should be in any doubt by now that every business in this industry needs to put consumer impact at the very core of their operations and culture. Demonstrating the fair treatment of consumers through effective values, product governance and conduct risk management is now the staple for all regulated firms and their suppliers.

That is not to say that every firm requires an army of compliance and control staff to execute this activity. Only that controls and resourcing put in place are appropriate and proportionate for the regulatory risks faced. Indeed, compliance isn't the job of the compliance team – it's about it being part of your culture."