



Internal collections teams and debt collection agencies are gearing up for anticipated rises in arrears, but are they really ready to cope with the volume? Heather Greig-Smith investigates

A recent white paper from Experian on how to survive the credit crunch calls into question the ability of the collections industry to cope with the debt turmoil predicted. It says most collections operations are “over exposed and under prepared, with systems and processes simply not ready to meet the new collections paradigm”.

The debt crisis follows 15 years of stable economic conditions, which Experian says has meant a “a relatively benign collections environment, leading to limited investment and a focus on reducing costs and write-offs, rather than preparing the department for a dramatic growth in delinquent accounts”.

Now that the era of cheap credit and easy lending is over, expecting lenders to rapidly expand their collections teams may be unrealistic – experienced staff are hard to find and new starters take time to train.

Chris Buckham is marketing director for Tallyman in Experian’s Decision Analytics division. He points out that there are few collectors who remember these conditions and have worked through the last downturn.

Buckham says the received wisdom of working debts to 90 days before passing to a debt collection agency (DCA) may no longer apply. “There may be too much debt for your own collectors to operate efficiently.” That means passing to DCAs earlier in the process when the people they’re chasing may be customers creditors want to keep, so need careful handling.

Under pressure

Yet if the expected wave of consumer hardship and mounting arrears does materialise, will the DCAs themselves be able to take the strain?

Henry Mehta is head of billing and collections at Veolia Water

Outsourcing (previously known as Thames Water Services). “I won’t be taking on more people – what I might be doing is renegotiating contracts with DCAs,” he says. “However, I have got concerns with that because DCAs are getting a little bit overloaded.”

Mehta says he can re-phase projects to give staff more capacity and is also looking at new technology such as automated messaging and text services. Short-term implementations are an option for creditors struggling to increase capacity, though Buckham points out that there’s only so much technology can do. “Time is not on the side of traditional lengthy software implementation projects that tie up valuable collections personnel for months on end.”

Lender strategy

Most lenders *Credit Today* contacted refused to comment on their collections strategy. However, one says he is “very aware” of the credit crunch and squeeze on affordability and is “monitoring it very carefully”. Others, such as MBNA, say they believe their lending strategies are robust enough to limit the threat.

Ray Hugill, head of credit and fraud strategy at Bradford & Bingley, says most lenders have been gearing up for increasing arrears since late last year. The building society has just decided it will outsource a small tranche of mortgage arrears. These are going to an outsourcing company rather than DCA. However, Hugill says loans and credit card arrears are another matter. “The DCAs will see massive levels of business from them,” he predicts.

As the work pressure is mounting, so is the regulatory scrutiny. Last month, the Office of Fair Trading warned 13 companies, including debt collection agencies and financial institutions, to take steps to improve their debt collection practices following a marked



In demand

increase in consumer complaints.

The problems it identified included: chasing consumers for payment of debts they did not owe; failing to properly investigate disputed debts; failing to carry out sufficient accuracy checks on data received from creditor clients and/or credit reference agencies; contacting debtors at unreasonable times and intervals, threatening home visits when debts were disputed; and refusing to deal with or bypassing third party consumer representatives such as Citizens Advice Bureaux.

The companies have been

given four weeks to respond and the OFT will consider taking action against any that fail to address the concerns raised, up to and including revoking their consumer credit licences.

David Philpott, OFT deputy director of consumer credit, warns: “It is unacceptable for debt collection businesses to engage in unfair practices and we will continue to take action where we find evidence of this.” That means no leniency – never mind the fact that teams may be overloaded.

The Credit Services Association says the next 12 months will

be interesting for the industry and the credit crunch will have a number of different impacts.

“On the one hand it will mean more debt may be sold earlier to reduce funding and operating costs for the credit grantor, helping to improve their bottom line. On the other hand, funds to buy new debt may become harder to raise and cost more. Collection will become harder from debtors with fewer options,” says executive director Kurt Obermaier.

Mike Cleary, managing director of 1st Credit, says there has already been a slight increase in

the volume of collections work, but the crunch has yet to really have an impact on the industry. “We have an expectation that might happen in the back half of this year – it needs to kick in a bit.”

Debtor profile

Cleary adds that if the crunch bites in the way forecasted, there will be a certain profile of person affected – such as homeowners hit by rate rises. “It will present a different profile of person falling into arrears and will be a new experience for creditors. A potential outcome is that creditors’ in-house