Credit Professionals Ltd
PO Box 83,
Crowborough,
East Sussex
TN6 1WH

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Data high on the agenda as the Consumer Collections industry comes of age

By Kevin Still, Senior Vice President

Not since the US deal-making boom in 1997 and 1998 has the debt collection industry witnessed as many significant changes as those that have occurred in the US and the UK in the last 2 years. In the US there are now 5 leading public[1] companies buying consumer bad debt with a combined market capitalisation of $2,511 billion.

There remain highly favourable market conditions and a growing willingness by major credit granters to outsource or sell debt portfolios. It is CPL's view that UK market growth is likely to be driven further by US, Nordic and Indian (BPO) market entrants, both from existing players and new well-funded syndicates. This has resulted in a number of high profile acquisitions, MBOs, MBIs and asset purchase transactions amongst the CSA[2] member base. There will undoubtedly be more consolidation in the market over the next 18 months.

As a specialist credit recruitment agency, CPL has also seen an increase in the level of knowledge transfer and best practices amongst both credit & collections specialist within both creditor and credit service organisations. This has undoubtedly contributed to the industries collective learning.

Compelling Market Trends

The coming of age of the Consumer Collections industry has coincided with a dramatic rise in consumer indebtedness and the emergence of hungrier investment funds in the sub-prime lending, debt purchasing and debt management/IVA sectors. A MORI survey recently carried out for CCCS estimated that 8% of the adult population is in financial difficulty and this represents over 3.5m consumers.

More than 20m Britons are in debt[3], with 44% of adults owing money on a variety of credit and loan products, not including mortgages. 8% owe between £10,001 and £20,000, and a further 5% have borrowed more than £20,000. Approximately 2.5m adults have unsecured debts in excess of £10,000 across several creditors. CPL's own activities with the fee charging debt management companies (DMCs) has shown that the average level of qualifying debt is approximately £23,000 across 7.5 creditors. This has risen from approximately £18,000 three years ago. This now demands an earlier identification of hardship cases, both in terms of the best interests of the consumer and in identifying the most cost effective case treatments.

The rise in indebtedness has occurred at a time when there have been record levels (32%) of opt out on the Electoral Register and this has increased demand for new alternate sources of value added information with sophisticated matching algorithms for the purposes of confirming length of residency and tracing absconded debtors.

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1 Companies Listed: Asset Acceptance Corp (AACC), Asta Funding (ASFI), Encore Capital Group (ECPG), FirstCity Finanical Corp. (FCFC), Porfolio Recovery Associates (PRAA)
2 Credit Services Association
3 According to a survey by Mintel

Near-shore/Offshore Outsourcing Trend

In both the US and the UK, there has been a significant increase in the number of global outsourcing companies adding receivables management and collection services to their service portfolios. In part this has been driven by the threat of adverse calling regulations in the US and in part because of the ability to leverage existing infrastructure and extending into this perceived “attractive” space. This has increased the requirement to data profile those accounts that are suitable to be handled by “agents” in places like India and South Africa.

Most of the larger agencies are now actively involved in the purchase debt arena, either as a separate business activity or as an extension to their service agreements with their larger clients, where there is a demand for more certainty in the performance and cashflow generated from their preferred agencies. This has increased requirements for data warehousing, business intelligence and effective MIS tools.

Over the last 5 years there has been considerably more focus on business process improvements, utilising; more technology (e.g. warehouses, self-service on-line portals, predictive dialers), data resources, scoring, client integration and benchmarking. There is increased transparency in client reporting and regulatory compliance has also become a key factor that has increased service overheads and professional indemnity requirements.

New Industry Substitutes

The consumer debt collection environment is changing rapidly:

- BPO[4] providers are broadening their service offering with call centre facilities, IT services and ARM[5] services
- In-house collections units are becoming more efficient and adding new capabilities, including selective sourcing of “confidential” outsourced components either in the UK or offshore
- Contingency agencies (i.e. DCAs) are diversifying their offerings, integrating BPO and debt purchase capabilities, often with the involvement of specialist consultants, investors and strategic alliances
- Major debt purchasers are offering contingency collections and outsourcing services
- Leading providers of systems, information services (e.g. CRAs) and predictive sciences/analytics (e.g. collections scoring, fraud detection) are seeking alliances to develop more predictive models for the ARM service providers and in-house collections units
- New credit guarantee schemes along the lines of those offered in the commercial receivables funding and insurance arena

Debt Purchasing

There are now a number of premier league debt purchasers specialising in the purchase and servicing of delinquent debt from a range of consumer credit granters, including; banks, credit card issuers, telecoms/mobile providers, utilities, finance houses, retail credit and home entertainment providers. The major players recognise the dramatic growth in the UK debt purchase sector and now have the financial, operational and analytical resources to manage large single placement and forward flow portfolios.

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4 Business Process Outsourcing
5 Accounts Receivables Management

Key requirements for complying with demanding client/seller requirements include:

- A hands-on and dynamic executive team
- Excellent open and transparent relationship management at all points of contact
- Substantial funding lines for single and forward flow debt purchase agreements
- A complete range of debt purchasing solutions
- Significant experience in working different product & aged debt portfolio profiles
- A thorough and streamlined bid process geared to timely contractual agreement
- Substantial capacity to grow either organically or in partnership with like minded service providers
- Commitment to reciprocate information
- A major commitment to staff and performance management based upon continuous improvement
- Emphasis on using leading edge technology and analytical techniques to improve operational performance and debtor contact strategies
- A highly ethical and compliant approach

The progression of the Debt Buyers & Sellers Group (DBSG) from a networking forum to one that is establishing best practices and instigating industry change is very refreshing. Better use of own data and 3rd party data seem high on the leading players agendas, which has been reinforced in the latest best practice guidelines and debt purchase template agreement. It remains disappointing that several prominent DBSG members have yet to commence sharing data into SHARE, CAIS and INSIGHT.

Recent trends and market initiatives indicate that there will be more performing books offered to the market and that there will be increased secondary sale activity utilising the same code of practices that have been established by leading DBSG members. This will serve to increase the demand on risk & pricing models and the ability to establish portfolio evaluation and assignment platforms to minimise overheads and improve transparency during the sale process. With more forward flow deals there will also be a need for more effective and automated monitoring tools to ensure that the quality of the book and buyer performance remains consistent with the original sale agreement.

The need for timely and predictive data has never been greater through trusted information providers that have an in-depth knowledge of the delinquency, collections and debt management processes of both creditors and credit service providers. With the rise in the profile of the leading Debt Purchasers and BPO providers this aspect of the credit lifecycle should no longer be laggard in terms of investment in research & development.

About Credit Professionals Ltd. (CPL)

Credit Professionals Limited (CPL) provides strategic consultancy, recruitment, M & A and facilitates outsourcing solutions to companies throughout Europe. Formed in 1997, the company services the needs of companies where hands-on experience is vital, utilising the knowledge of over 50 senior qualified consultants.

For further information about CPL, please contact:

Contact :	Kevin Still, Senior Vice President
Tel:	+44 (0) 845 166 8256
Fax :	+44 (0) 845 166 8257
Email:	kevin@credit-manager.co.uk
Website:	www.credit-manager.co.uk