

White Paper

Improving Debt Recovery: Focusing on the customer, not the process

Utilities companies are among the growing number of creditors affected by an increasingly indebted society. UK consumer debt levels exceeded £1.1 trillion at the end of 2005, including nearly £200 billion of unsecured debt. Increasingly delinquent debtors are no longer just individuals struggling to manage their budgets on the margins but over-leveraged middle income households who have borrowed beyond their means to fund increased 'lifestyle' spending.

Historically, debt losses have had a measured by stable impact on utilities. With the new type of debtor, utilities are increasingly see part of their core customer base becoming delinquent and debt is now high on the priority list of many Finance Directors as volumes increase and start to materially impact finances. But it is not just Utility FDs who are concerned with increasing debt; every creditor (and particularly the big Banks) has been investing to improve their debt management capability.

Utilities are in a competition with these creditors when attempting to reclaim money owed from debtors and they are losing. To succeed, utilities must adopt a more analytical approach enabling a targeted customer focus to debt management.

The growing debt challenge

Low interest rates and steep house price increases have driven a significant rise in consumer debt in recent years. The availability of 'cheap' credit has resulted in consumers using housing gains, or the promise of future housing gains, to support lifestyle spending. Many consumers now find that their finances are over-stretched, with expected income less than anticipated or interest payments higher. Being overleveraged and unable to cope with unexpected situational changes (e.g. interest rate increases, redundancy, divorce or illness), many consumers are now in credit difficulty (often for the first time in their lives).

As individuals fall into credit difficulty, they do so for many of their credit products from utility bills to credit cards. Research published by MORI in 2005 found that one in six British households had delayed paying a bill until after its due date. Of these, water, gas and electricity were some of the most likely bills to be put off, whereas bank loans and mortgages were more likely to be paid immediately.

Utilities face a number of challenges that make improving collection rates difficult:

- Limited ability to penalise non-payment → Inability, or where legally allowed, difficulty, to disconnect supply.
- Billing and often property based systems and processes
- Lack of contracts, making attaining CCJs and affecting credit rating difficult
- Lack of quality customer data
- Requirement to continue to provide supply to non-payers

These factors increasingly push utility bills to the back of the repayment priority order for customers. At the same time the Financial Services sector is making significant investments in improving their collection and recovery processes to deal with the same challenge of an

Increasing number of delinquent debtors.

It is in this environment of increasing debtors, low debtor propensity to repay utility bills and high competition from Financial Services collections departments that utility companies must seek to improve collection rates.

Taking a customer-centric approach

Faced with these challenges, the only way for utility companies to remain competitive with other creditors is to adopt more strategic and sophisticated methods of debt collection. Any new strategy needs to address two key points:

- 1) Effectively managing large volumes of customers owing relatively small amounts of debt (which if managed at the same contact intensity levels currently being deployed by financial service companies would be prohibitively costly)
- 2) Getting the message right for each group of customers (whether that be offering a 'carrot' or threatening the 'stick') and moving utility bills up the repayment priority.

Because of point 1 (large volumes) achieving point 2 means that every contact utilities companies have with debtors is critical. The number of times they can afford to contact each customer is limited, so the message must be right, first time. Moving from a 'one-size fits all' approach to a customer segment specific approach is key to achieving this improved effectiveness. And getting this right means using data and analytics.

More intelligent approaches involve applying analytics to the information that is held on debtors, and moving towards a more customer-centric approach. There is a wealth of information to be extracted from postcode level demographics, address payment history and account payment history, which is currently generally untapped.

By analysing this information, and spotting trends, utility companies can approach debtors with the right message at the right time during the account lifecycle (potentially even before an account goes delinquent). Everything from how an account is set-up, billed, what payment options they have available to them, the tone and timing of contacts in collections and the optimum approach taken to collect delinquent debt can be determined at a customer segment level based on understanding that customer's needs and motivations.

The future

Any utility not currently reviewing and improving their debt management strategy will increasingly struggle to manage the growing debt challenge. The current debt problem has happened in a stable, even favourable, macro-economic environment. Even without significant changes to the economy, rising energy prices and the likelihood that the Bank of England will increase base interest rates this year to combat inflationary pressures will further increase the burden of servicing debt and increase the number of debtors.

Debtors are beginning to take advantage of options such as Individual Voluntary Agreements (IVA) to clear their debts without resorting to full bankruptcy. The recently approved Simple IVA (SIVA) will increase the number of individuals using these programmes. At the same time, many of the investments made by the financial services sector are starting to improve their

Collection rates, making it even more difficult for utilities to claim their share of the debtor's disposable income.

Major system investments and process overhauls are not the answer. Success through purely operational improvements is difficult and expensive. Utility companies must take advantage of available market and customer data and begin taking a more customer centric approach.

The cost of not acting is not just bad debt, but escalating customer dissatisfaction, as the cost of debt is passed on as rate increases to paying customers.

By Kevin Fuller, Strategy Director, TDX Group

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