

White Paper

Seven for 07: Key Predictions for the Industry in 2007

As a leading intermediary in the debt industry, TDX Group interacts with a broad range of creditors and suppliers on a regular basis. The insights from these interactions give us a unique view into the key drivers that will change the debt industry in 2007.

Looking back at 2006, it was a year of dramatic market changes. Credit losses from major banks continued to increase, exceeding 4.5% in the first half. Individual Voluntary Arrangements (IVAs) emerged as a major contributor to losses. As a response many creditors looked to debt sale as a key tool for generating returns, and the total value of debt sold nearly doubled to over £6bn. With such major shifts to debt sale, collection agencies have shifted their business models more toward purchase.

Looking forward to 2007, we see continued change as creditors invest to manage losses and suppliers compete in a rapidly growing debt management market.

The following seven trends will shape the market in 2007:

- 1. Creditor losses will continue to increase**
Better debt management is the main opportunity to reduce losses in 2007. Focus on optimising delinquent asset value and building analytical management capabilities is important. However, these investments will be especially challenging for smaller financial services players and utility providers where the data and investment hurdle is relatively high.
- 2. Credit owners (creditors and purchasers) will increasingly face competitive marketing to their delinquent customer base**
Credit owners risk being dis-intermediated from their customers by Insolvency Practitioners, third-party debt managers and others offering debtors tools and approaches to manage debt. Credit owners will need to respond with their own compelling offers, not just attempt to control these external debt managers.
- 3. IVA volumes will continue to grow - nearly doubling to ~90,000**
As a result, Insolvency Practitioners will struggle with customer service as volumes grow – leading to increased breakage rates on these arrangements.
- 4. The sector will attract significant external investment**
Driven by overall market growth and an improved understanding of underlying asset value, the sector is attracting significant, and increasingly mainstream, investment.
- 5. The collection agency market will further polarise between new disruptive entrants and consolidating established players**
Using technology and innovative processes, new entrants will establish significant niches. This competition along with the growth of debt sale will drive consolidation and a rush to scale among established agencies.
- 6. Resale will become the growth driver for the debt sale market**
Creditor sale volumes will stabilise with limited growth over 2006 numbers. A viable secondary market will emerge as purchasers seek alternative strategies to liquidate their assets.

7. Winning the best talent will be critical to success

As it becomes easier to get the basics right, the winners will be those who attract the right analytical and innovative talent vs. "old school" industry domain experts.

While 2007 will remain a challenging year for creditors, those that have made the investments in data and analytics to drive improved debt management processes will see material improvements and will be well positioned to utilise these capabilities to support new lending growth.

By Mark Onyett, CEO, TDX Group