

# PREDICTIONS *REFLECTIONS*

A ROUNDTABLE DISCUSSION



**Mark Sanders**  
Chief Executive Officer,  
TDX Group



**Mark Onyett**  
Chief Executive Officer,  
TDX New Ventures



**Adrian Crean**  
Managing Director,  
Core Business



**Stuart Bungay**  
Managing Director,  
New Ventures



**Oliver Betts**  
Head of Client and  
Product Development



**Carlos Osorio**  
Head of the  
Bankruptcy Exchange

For many creditors 2010 was not as harsh as feared. But, is the worst still to come? Members of TDX's leadership team took part in a roundtable discussion to reflect on 2010 and to predict the hot topics for creditors in 2011.

If you would like to discuss any of the topics raised in this article, please email us at [info@tdxgroup.com](mailto:info@tdxgroup.com)

## What do you feel characterised 2010?

**Oliver Betts:** In 2010 I observed a positive movement in how banks have taken compliance and data security more seriously. I believe the underlying treatment of the customer has improved – everyone has effectively clubbed together – be it creditors, suppliers, DCAs or purchasers – to acknowledge the importance of making sure data is retained correctly and debt is collected the right way. However, inevitably, the media continues to depict banks and creditors as baddies – largely driven by profitability and bonus stories.

**Adrian Crean:** I agree with Oliver – we have also seen this in the utility sector. Data is increasingly being seen as key to better performance and customer treatment. For example, if you consider Ofgem regulations in the energy sector, the treatment of complaints is changing dramatically – almost to the extent that any conversation where a customer has an intonation of dissatisfaction is treated as a complaint. If you play that through the customer life cycle at all touchpoints it has, and will continue to have, consequences for how the industry collects debt.

**Stuart Bungay:** I'm not sure I agree. I think the desire to improve data quality certainly gained momentum in 2010, however I believe most organisations' data handling capabilities are shocking by the time it gets down to this part of the recoveries process. Quite simply, the infrastructure just isn't up to scratch when it comes to data capture, risk scoring and analytics in this part of their businesses.

**Carlos Osorio:** The insolvency area is classic case in point. We can see that creditors aren't making the best use of even publicly available data. Do they know when customers become insolvent, do they know when IVAs break? Do they know when debtors go bankrupt or Debt Relief Order (DRO)?

**Mark Onyett:** But everyone knows control is important. I think this is why, for TDx, 2010 was really characterised by the momentum that built up in our platform businesses – both TIX and recoveries management. A lot of clients took a look at the platforms they currently have whether for IVAs or recoveries and felt they weren't up to scratch or fit for task and therefore needed to do something about it.

## Was there anything in 2010 that really caught creditors off guard?

**SB:** I actually think creditors went into 2010 assuming the worst and I don't think it turned out to be as bad as they thought it would be.

**AC:** I think that's fair. So many things could have transpired this year, yet a lot of them are still to play out, such as the impact of government spending cuts and public sector employment consequences. There was also a matter of focus, particularly in financial services. Such were the issues in the sector in 2008 and 2009, that in 2010 debt wasn't a big focus. As we go through 2011 you should anticipate bigger expectations of what has to be delivered and a renewed focus on optimising performance in the debt space.

**OB:** I agree. To a certain extent some of the cautious forecasts within recoveries were almost too cautious. In some cases the core debtor base has proved to be almost recession-proof because they were already in financial difficulty.

**MO:** There was a bit of pressure initially but that quickly went away at the start of the year. Everyone got a lot more leeway from the analysts and the stockmarket than expected. The big question for 2011 is how much does the stockmarket expect banks and others to improve?



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## What concerns you as we enter 2011?

**MO:** Some creditors seem to be looking to trim collections activity because they had to increase it so much in 2007, 2008 and 2009. Now they don't have the volumes to collect because they've not done the lending. But I think if you look forward, we're at a point in the economy where there is a lot of uncertainty. It's likely that 2011 and 2012 are going to be difficult times. If you are to equip yourself well, you at least need to have control of your debt inventory and have the detailed data about what you've got so you can make the right decisions about how to collect in a rapidly changing world.

**CO:** The regulatory environment is intriguing me. The new government has essentially thrown all the balls up in the air. Who really knows how it's going to land in terms of which regulator is going to be around and how active they are going to be? It will be interesting to see whether it means more regulation, or more relevant regulation. Or whether there will be a bit of a void where the industry will need to take its own action in order to adhere to the principles that have been better understood in the last two years.

**AC:** The regulatory environment is top of my list as well - mainly because of the extent to which it drives behaviour in the debt industry. You could argue that historically while it's not quite been an after-thought, it certainly hasn't been the major focus. Debt management companies and debt collection agencies are talking to customers all the time, yet they are so far down the chain the customer experience is definitely a secondary consideration. I still think there are some big waves of change to come in terms of regulatory environment and how we speak to customers. It is massively important for creditors to know who they are talking to and for them to have control over the conversation.

## What do you think are the key areas that creditors need to be thinking about in 2011?

**MO:** It does seem as if the themes of control and insight are key. It runs through all our platforms and is very timely for the market both in terms of the uncertain economic environment, regulatory pressure and focus on fairness. It all comes back to do you have control and insight? That's the platform. That's the base. Only then can you look at your smart strategies using tools and services to optimise performance.

**SB:** The fundamental question is, are creditors prepared to invest in that? They haven't historically is the honest answer.

**CO:** And do creditors believe they are at a point in the economic cycle where they feel they need to invest? Is the feeling, particularly in the unsecured space, that the problem has already washed through? Creditors really need to be predicting where new problems are going to pop up. Is the new problem going to be in secured as interest rates increase? To say they are at historic lows is almost an understatement. How much pain is going occur when those rates potentially double, and double again, from where they are today?

**SB:** I also think there is a bubble of debt where balances haven't shrunk that much - they are just being serviced. In the event that things do take a step for the worse in the wider economy those balances will easily find themselves in collections.

**CO:** And there's a potential opportunity for creditors - not with regard to new flow, but regarding debt that's already written off, uncollected, un-worked. Maybe there is some hidden value in the cupboard?

**OB:** In recoveries, the challenge will be all about cost. It will be interesting to see how some recovery departments try to manage costs - how they try to improve underlying performance and capabilities without spending money.

**AC:** Creditors are getting more sophisticated - particularly in utilities. Front of mind is how you get performance in the shape you want without spending a lot of money up front. There is a sizeable investment requirement if you want to materially up your game in terms of technology, process, people etc. That is the major challenge - but it is possible to get there efficiently if you team up with the right external party.



*"Control and insight are key for 2011."*

*continued...*

## What is the one thing that should be keeping creditors awake in 2011?

**SB:** As an individual creditor and as an industry as a whole, I think it is what you are going to do with debt management plans. You have got to fix that and it needs to be fixed in the next three to six months.

**CO:** While the upcoming public sector employment cuts may ultimately affect debt levels and solution mix – I think this is more likely to impact from 2012 onwards. So, the key thing that I think creditors should be focused on in 2011 is whether they understand the sensitivity of their debt portfolio to interest rate rises. Do they understand how their customers will cope when there are significant increases in interest rates. If they don't, a problem will pop up somewhere they are not expecting.

**SB:** And, the lead into that is going to be inflation. The cost of living is going to go up for everyone. Then, the chances are that interest rate rises will squeeze people again. 2011 could deliver a double blow to the consumer pocket and it seems likely that the first place that pressure will get pushed out to in terms of debt repayments is the unsecured area.

**OB:** My one hot topic is debt sale. I believe the majority of people are going to sell again next year. What would be keeping me awake is working out when I am going to sell. How do I know if I've got a good price? I think the underlying price is going to keep going up right to the end of the year, so do you wait to the end of the year when there might be too much supply? And when you do sell, did your competitor who sold later that week get twice the price you did? That would worry me.

**AC:** Generally, in a world of increasing economic, regulatory and cost pressure, the question you need to ask is, do I have the levers at my disposal for the next 12 – 24 months to do what I have to do in an increasingly competitive environment? And specifically in the IVA space, how will house price deflation and lack of ability to refinance impact the equity release expectation within IVAs? That is something creditors really need to get a grip on.

**MO:** Again, this all relates to insight. There is a risk as a creditor you don't have the insight you need into what's happening in the debt management market, the DCA market, debt purchase market, the DMP market. There's a bunch of intermediaries speaking to your customers that you're not up to speed with. If you don't have that insight you are at risk of making some wrong decisions. Similarly on a debtor level, if you don't have the insight about debtor behaviour or the shift in debt solution mix, the bigger risk you have of not being able to react if something bad happens.

## Market predictions summary

Mark Sanders, CEO, TDX Group

### COLLECTIONS

Liquidation levels will be steady, with an ongoing increase in penetration and conversion of around 10% being counterbalanced by an equal decrease in average payment yields as indebted consumers come under ever greater financial pressure due to wider economic conditions.

Continuing high demand from existing creditors will be increased by new entrants, such as the public sector. This, combined with ongoing consolidation in the DCA market, will mean that in 2011 it will be tougher than ever to get your debt the attention it needs.

### DEBT SALE

Activity in the debt sale space will increase significantly in 2011 with volumes increasing by 50% when compared to 2010.

Prices will rise throughout the year as purchaser confidence returns – year on year prices could increase by as much as 25% in the next 12 months. Portfolio selection and sale timing will be critical as financial services warehouse volumes are understated by most and as this debt comes to market there will be periods when supply exceeds demand, making the price recovery bumpy at best.

New lending standards will increase the focus on quality of data both pre and post sale.

### INSOLVENCIES

Total volumes of personal insolvencies will stay broadly steady in 2011. However the mix of solutions will change with Debt Relief Orders (DROs) continuing to rise and bankruptcies keeping pace with IVAs:

- IVA volumes will remain broadly steady
- DROs will increase by 20-30%

- Bankruptcies will reduce by 5-10%
- Combined volumes of DROs and bankruptcies will be broadly steady.

A continued lack of refinance options as well as tough economic conditions for the consumer will also drive a 10% increase in debt management plans as the first solution those in financial difficulties turn to.

Overall, creditors should expect a further peak in insolvencies to come in 2012/2013.

### REGULATION

Scrutiny on all debt solutions will continue and the definition of a complaint will broaden, leaving creditors dealing with the highest volumes of complaints/queries to date.

### DEBTOR PROFILE

The ongoing difficult economic environment will continue to shift the debtor profile:

- Homeowners entering financial difficulty will increase by 10% due to a combination of inevitable interest rate rises and the reduction in house prices
- There will be an increase of 20% in the number of the unemployed entering IVAs
- The number of retired people entering financial difficulty solutions will increase by 10%.

There will also be a shift in the payment hierarchy, with debtors starting to prioritise key consumable debts above repayment of more formal lines of credit and even secured debt. Choosing who to pursue for payment will be critical as competition for the debtor wallet increases.