

The Debt Review

QUARTER 4, 2010

Quarterly debt industry newsletter brought to you by TDX Group

TAKE CONTROL

2011 will be a time for creditors to make some key decisions if they are to take control of the debt challenge.

I suspect there are many people in our industry who are breathing a sigh of relief as 2010 comes to an end. Quite frankly, this year could have been far worse than it has turned out to be. However, enter 2011 with any hint of complacency at your peril.

With public sector job cuts (and their knock-on effect on the private sector) just around the corner, and the spectre of interest rate rises hanging over consumers, there remains much that is uncertain.

One of the things that is clear, however, is that we should not expect any quick bounce-back in levels of bad debt from their current high. A sharp increase in unemployment may well follow the deep cuts which have been announced by the government. While it may not materially impact debt levels in 2011, now is the time to make sure you are in the best possible shape to deal with the peak when it arrives.

When it comes to planning ahead I believe there are four broad areas creditors should keep in mind:

1. **Flexibility** will be key. In uncertain times you must seek to build-in agility to be able to alter your strategy in response to changes in both your own organisation and the wider environment.
2. With the **regulatory agenda** continuing to drive change, how will you deal with the challenge of third parties who are interacting with customers struggling with financial commitments? What role do you want to take in ensuring they are given the best possible advice and are equipped with the most appropriate solution to manage their debts?
3. **How sophisticated is your data and how do your systems measure up?** Without the best system and infrastructure possible your data will not serve you well when it comes to ensuring you are making the best strategy decisions for today and tomorrow.
4. Finally, with the debt purchase market showing signs of opening up once again after 18 months, do you have the up to date insight and market intelligence you need to know **when to keep and when to sell?**

2011 looks set to be an exciting year and a great opportunity to make some step-changes when it comes to managing debt – it certainly is not a time to sit back to see what happens.



Mark Sanders
Chief Executive Officer



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Getting the right focus

It is quite clear that there remains areas of volatility and uncertainty ahead; none more so than in the economic outlook. However, while there is merit in spending some time trying to predict what might and might not happen, it is essential to ensure you focus on where you can exercise control and influence as we head into 2011. I think there are four key certainties that need to be taken into account, regardless of your role in the debt industry:

The debtor profile will change

- We will continue to see a higher proportion of 'middle-class' customers finding themselves struggling to meet their financial commitments;
- As difficult times continue, there will naturally be more people who, quite simply, cannot pay.

Everyone will be chasing the same debtor

- In order to be efficient and effective, creditors will have to make some highly informed decisions about who they pursue - and be creative in maximising their share of the debtor's wallet.

The payment hierarchy will shift

Is this the year that secured debt will lose its position at the top of the list for payment?

- We see an emerging trend of debtors giving priority to unsecured debt, as consumerism dominates and services such as mobile and broadband become seen as necessities;
- As the public sector gears up to apply more rigour to the management of its consumer debt, this will also influence the payment hierarchy.

The supplier landscape will continue change

- Debt collection agencies and financial difficulty providers are more value focused - and this is affecting the strategies and approaches they are deploying;
- Regulatory focus could change the mix of financial difficulties solutions being offered;
- The debt sale market is picking up, but the key players are different to those active 18 months ago. How long will the current top payers remain in this position?

Given these certainties, a key priority for 2011 will be to ensure you have a detailed, segment-level view of your debt portfolio. This will enable you to apply the appropriate action to each group, to determine where you need external expertise and ultimately to ensure you have the control required to be efficient, effective and fair.

Adrian Crean
Managing Director, Core Business



ACTION: Debt management companies exposed

Creditors spurred to take action ahead of regulatory reform

AN OPPORTUNITY FOR

When people seek help from debt advisers on how best to deal with their financial difficulties, both they and their creditor(s) become dependent on the professionalism of the debt adviser for a satisfactory outcome. However, the recent OFT report highlights significant issues with the behaviours of the debt management industry, opening the floor to creditors step in and influence significant change.

The OFT report issued in September was scathing, providing a damning list of examples of how consumers are being poorly advised, mis-sold inappropriate solutions, charged hidden fees and generally poorly served by private organisations to maximise profits regardless of consumers' circumstances.

Worryingly, there was not just a small minority of offenders. In some cases the OFT investigation exposed 100% non-compliance, resulting in 129 firms being warned they may lose their credit license unless practices are changed.

For some time creditors have had concerns about the practices of the debt management industry, but felt powerless to intervene. The winds of change are gathering and the OFT report has caused many creditors to consider what action they can take to protect their customers from the rogue behaviour of a proportion of the debt management industry.

"Creditors are often left ill-placed to support their customers in financial difficulty."

The key challenge for a creditor is getting the right balance between supporting customers through financial difficulty whilst seeking appropriate debt repayment. The role is a curious mix of villain and saviour, with consumers typically approaching a third-party debt adviser because they seek protection from their creditors, whilst depending on the creditor to provide assistance to alleviate the burden created by indebtedness.

Customers are sometimes reluctant to share the extent of their current financial situation with their creditors and a detailed view of total indebtedness across different creditors is difficult to obtain.

Once advised a customer has sought help from a debt adviser, many creditors seek to fulfill their obligations under the Treating Customers Fairly (TCF) principles and the OFT guidelines on debt collection by ceasing direct communication with the customer for fear of the creditor being accused of annoyance or harassment.

The end result is a perverse situation where creditors are often left ill-placed to provide support to the very customers who need it most.

"Finally it would appear regulatory change is on its way."

There has been much talk of the potential for regulatory change to improve the current situation, including the possibility of an Approved Debt Management Scheme, but little tangible progress has been made to date.

Self regulation and monitoring by industry trade associations has also proved to be ineffective, as demonstrated by the OFT findings.

Previous attempts to develop industry protocols and solutions, including the launch of TDX Group's Debt Management Exchange in 2008, also failed to deliver any advances. Today the industry continues to be complex and inefficient, largely paper-driven and with no clear standards or protocols.

Recognising the need for change, the new coalition government has already expressed its intention to change the regulatory framework for consumer finance and consumer financial services. Furthermore the Department for Business Innovation and Skills (BIS) has recently called for evidence from industry participants to support a detailed review of consumer credit and personal insolvency, including how people access help when they get into difficulty with their debts.

So finally it would appear regulatory change is on its way, but as no clear timetable has been set, past

experience suggests it would be prudent for creditors to take action in the interim.

"The OFT report has led many creditors to consider what other actions they can take to protect their customers."

Creditors already actively support the provision of consumer advice and support via not-for-profit sector organisations such as CCCS and Payplan. Creditors also recognise the need to develop good working relationships with fee-based debt management companies who offer high quality, impartial advice and reasonable and fair solutions.

Creditors must now make a concerted effort to protect their customers from the poor behaviour which the OFT report highlighted and which appears so prevalent across a proportion of the remaining fee-charging providers.

Over recent months, we have been working with creditors who are realising the benefits of proactively identifying and introducing customers in financial difficulty to reputable debt management organisations. It often makes a lot of sense for a third party to broker an appropriate solution across the different parties, especially when multiple creditors are involved.

By taking proactive action, creditors have much to gain, including diverting customers away from poorer advisers, lowering their own costs and getting better returns – in addition to the long-term loyalty of customers who once back on their feet are likely to remember the support they received.

Poor debt management serves no-one. Often portrayed as the bad guy, creditors now have the opportunity to help their vulnerable customers and shape the way forward rather than relying entirely on regulators.



Carlos Osorio

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Getting smarter

How to get the most out of your analytics

With uncertainty about debt levels set to continue into 2011 and beyond, here are our tips to ensure you gain the maximum benefit from data and analytics in your business.

1. Develop the analytics team

Your foundation is your team and, when it comes to training and recruitment, you need to look beyond pure technical training. Ensure your team is also skilled in producing rounded business solutions by focusing on:

- Core analytical skills (e.g. structured thinking, error checking);
- Technical capabilities (e.g. data mining, regression techniques, SAS / SQL / Excel);
- Business competencies (e.g. stakeholder management, project planning, communication).

Carry out your training internally or through industry specific training experts so the content and context can be tailored to your business.

2. Maximise the team's contribution by cutting out the waste

A recent study by TDX found that up to as much as 25% of an analyst's time can be taken up with 'work-around' solutions to cope with underlying data or system issues. Fixing these problems at source would allow this time to be spent on more 'value-add' activities.

- Ensure you find out from your analytical team how they are really using their time; are they spending too much time having to work around operational and data issues?
- Encourage a culture which rewards long-term fixes and outputs which require low levels of ongoing support;
- Ensure your analytical and IT team have open channels of communication.

3. Maximise the data asset

Whether in front end credit risk or back end recoveries, continually improving the quality of the data you capture and enhancing it with external data sources can significantly improve your business' ability to analyse and segment your portfolios.

- Let your analysts play a key role in identifying what data is needed (internal and external);
- Reward enhancement ideas.

4. Optimise the data infrastructure

Your analysts can only be as insightful as your infrastructure allows so ensure your system meets your business and your analysts' requirements.

- Ensure data infrastructure works from an analytical perspective as well as an IT and operations perspective; the way data is stored in core systems is often very different than is ideal for analytics;
- Ensure data is captured in one, well structured, warehouse – and that it is set up for analytical performance.

5. Develop analytical tools

One of the keys to an optimised analytical capability is ensuring you have the best possible tools to inform your strategic decision making. Tools vary from off-the-shelf products to those which are developed internally and cover a wide range of applications.

- Ensure you are clear on the tools you require from your analytics team, for example building reporting tools is very different to scorecard development;
- Only build tools that can be applied across your whole portfolio, ensuring they do not end up being bespoke for different areas of your business;
- Any new tools must be value-adding, either through cost or time savings or through the ability for subsequent analysis to increase revenue;
- Ask for advice from industry experts.



Elliot Jackson,
Director of Liquidation Analytics

If you want to know more about how data, analytics and systems can improve and shape your debt liquidation strategy, please email elliott.jackson@tdxgroup.com

Debt industry news:

Our round-up of some of the headlines from the past three months

CONSUMER NEWS: TURBULENT TIMES CONTINUE

Rise in lending

Total lending in October 2010 rose by £1.3bn, with secured lending increasing by £1.0bn and consumer credit lending increasing by £0.3bn. Lending in general has been on the rise, with the annual growth rate of consumer credit increasing in October by 0.4% to 0.6%.

Sources:

- Debt facts and figures, October 2010, Credit Action

TDX Group commentary:

“Creditors’ bad debt levels have been reducing as a result of the tightening of lending criteria through the recession. However, with the front end of lending showing signs of opening up, recoveries teams need to be ready to deal with new waves of debt through 2011 and beyond.”

One-third of employers planning redundancies

Over the last quarter of the year, nearly 32 percent of employers are planning job cuts according to the Labour Market Outlook released by Chartered Institute of Personnel and Development (CIPD) and KPMG. This is the second successive quarter to have witnessed an increase in redundancy plans. According to the survey, planned job cuts are highest in north of England (35 percent), London (28 percent), the south-east of England (42 percent) and Scotland (38 percent).

Source:

- New report shows a third of employers planning redundancies, 16.08.2010, Debt Management Today

TDX Group commentary:

“Redundancies look set to continue to rise, especially with public sector cuts on the horizon. 2011 will be a tough year for consumers and creditors need to ensure they are prepared.”

Mortgage rates – when will the rises hit?

The bank rate was unchanged at 0.5% in November, the 20th month in a row. The consensus view of economists and markets is that the first rise will be sometime after July next year but the forecast has been shifting and a token rate rise well before that is a possibility. Worryingly, around 74% of people with a mortgage admitted they did not know how a 1% rise in the Bank of England base rate would affect their monthly outgoings, according to the Consumer Financial Education Body (CFEB).

Source:

- When will interest rates rise, 17.11.10, This is Money
- 3 in 4 oblivious to impact of rate rises, 07.07.10, This is Money

TDX Group commentary:

“Creditors can get prepared for consumers being hit by a potential increase in interest rates at time when redundancies also look set to be on the rise by conducting a sensitivity analysis on their portfolios.”

REGULATION

OFT takes action

The Office of Fair Trading (OFT) has threatened 129 debt management firms with revoking their licenses if they fail to take immediate compliance action. The warning comes as a result of a review of the debt management sector undertaken by the OFT, which found an ‘unacceptable’ level of non-compliance issues in the industry.

In November, the OFT also imposed requirements on a number of major banks (Alliance and Leicester Personal Finance, American Express, HFC Bank and Welcome Financial Services) as a result of an investigation into the use of charging orders. Requirements were also imposed on debt purchaser Aktiv Kapital for chasing debtors without proper investigation of the issues. Most recently, on December 14, MBNA was reprimanded over the way its in-house debt collection arm dealt with customers in financial difficulties following concerns raised about the firm’s practices by Citizens Advice.

Source:

- OFT threatens 129 debt firms with licence revoke, 28.09.2010, Creditmanbiz
- Major banks face OFT requirements, 22.11.2010, Credit Today
- OFT imposes requirements on Aktiv, 23.11.2010, Credit Today
- OFT imposes requirements on MBNA, 14.12.10, Credit Today

TDX Group commentary:

“Regulatory scrutiny on all aspects of debt management will only increase and it is time for creditors to take action. Poor standards are bad for consumers and result in a high cost burden for creditors. Read more about this on page 3.”

DEBT SOLUTIONS

Quarter three insolvency statistics

The Insolvency Service released their figures for the third quarter. There were 33,935 individual insolvencies in England and Wales in the third quarter of 2010. This was a decrease of 3.7% on the same period a year ago. This was made up of 13,907 bankruptcies (which were down 24.2% on the corresponding quarter of the previous year), 12,960 Individual Voluntary Arrangements (IVAs) (which were up 4.6% on the corresponding quarter of the previous year) and 7,068 Debt Relief Orders (DROs), which have increased each quarter since their introduction in April 2009.

Source:

- Statistics release: insolvencies in the third quarter, 05.11.10, The Insolvency Service

TDX Group commentary:

“Media coverage of the insolvency service figures focused on falling levels of bankruptcies, however combined figures of bankruptcies and debt relief orders (DROs) show numbers rising and at an all-time high. While it seems likely that low-balance debtors have turned to debt relief orders as an alternative solution, the key question is if continued economic hardship will create a new group of debtors who will find themselves turning to bankruptcy in the future.”

Insolvency 2011

LOOKING BELOW THE SURFACE

2010 held no big surprises when it came to insolvencies with the general upward trend in volumes that started in 2008 starting to show signs of flattening out. However, those who may have been eagerly anticipating a recovery have had their hopes dashed as 2011 does not show signs of bringing respite. Budget cuts and austerity measures look set to add additional strain on those who are already finding it hard to make ends meet, and public sector cuts will add new waves of debtor seeking assistance in the form of debt solutions – both structured and less formal.

VOLUMES 2011

It looks likely that total volumes of insolvencies will stay broadly steady in 2011. Public sector and government spending budget cuts are likely to take six to 12 months to take hold and therefore will not significantly affect overall insolvency numbers until the latter end of 2011 and early 2012. However, the mix of solutions will change.

Debt Relief Orders (DROs) will continue to be on the rise in 2011 as general awareness of the solution continues to grow. As a result we expect bankruptcy numbers to keep pace with IVA volumes in 2011, however DRO levels are unlikely to peak until 2013.

Creditors should also expect to see an increase in those seeking informal debt solutions in the first six months of 2011. This will be driven by the continued lack of refinancing options which will result in an increase in **Debt Management Plans (DMPs)** as the first solution those in financial difficulties turn to.

HOT SPOTS IN 2011

IVAs: returns under pressure

Although volumes of IVAs will be broadly steady in 2011, creditors need to plan for returns coming under increasing pressure. Firstly, **disposable incomes** will continue to fall as a result of the cost of living remaining stubbornly high and salaries failing to keep pace. Indeed, the most recent CCCS expenditure

guidelines suggest consumers have £20-30 per month less to pay creditors, and any future rises in interest rates will add further pressure. This will affect new IVAs in terms of agreed dividend and will also put pressure on those already in an IVA who may need to seek to vary their existing arrangements. Furthermore, should cost-led inflation be maintained, creditors need to factor-in even greater pressure on consumers.

“...while equity release may have been factored into the original plan, much of it just isn't going to materialise in the next 12 months.”

Secondly, **equity release** is also under pressure. The reduction in house prices for those who entered into IVAs four years ago means less equity will be available to release. This is further exacerbated by the continued lack

of refinancing options for consumers. As a result, while equity release may have been factored into the IVA, much of it just isn't going to materialise in the next 12 months as the plans come to their conclusion. We estimate that this could result in creditors facing a £40 million shortfall in 2011.

Scottish solutions

In addition to these economic influences, regulatory and industry changes will affect Scottish debtors.

Some of the barriers to going **bankrupt** have been removed. Scottish debtors will no longer have to wait for their creditors to take legal action against them to declare them bankrupt. As long as they fulfill certain requirements and owe a minimum of £1,500, they will be able to apply for bankruptcy themselves via an IP. No matter what social stigma bankruptcy still holds, it is inevitable that this will drive an increase in Scottish debtors opting for this solution.

A further change that will drive a shift in the mix of solutions is the opening up of **Debt Arrangement Schemes (DAS)** to be offered via commercial organisations. Having previously only been available via money advisers, this will broaden reach of this solution which in turn will drive numbers up. Creditors need to be ready to deal with this influx.

There are also some changes ahead for the **Trust Deed** which will bring potential benefits for consumers and creditors alike. A Trust Deed Protocol, similar to the IVA Protocol, is currently being circulated for consultation. Having been formulated by a cross-industry working party including TDX, IPs, Regulators, money advisers and industry bodies

such as the AiB and the BBA, it is possible it will come into effect in 2011. It will drive changes to fee structure and distribution schedule, making the Trust Deed closer aligned to the IVA. As a result creditors and consumers will see benefits from the Protocol with consumers paying fairer and more sustainable fees and creditors getting better returns, faster.

“Know your portfolio and provision appropriately. All IVAs are not the same.”

WHAT CREDITORS CAN DO

1. **Know your providers.** Providers must have appropriate systems and processes to support the plans they manage and ensure breakage is minimised. Relative performance between providers is significant and only through having a comprehensive data based view of supplier performance can targeted conversations take place to drive improvement. Furthermore, the selection of an appropriate solution with a high quality provider at the outset is critical for both the consumer and the creditor. Creditors should take full advantage of opportunities to influence provider selection.

COMPANY NEWS

2. **Know your portfolio and provision appropriately.** All IVAs are not the same. We have observed that as the volume of IVAs begins to grow and the industry portfolio seasons, patterns are emerging that provide insight into the divergence of performance between IVA cases that on the surface appear homogenous. We have been working with creditors to assess the appropriateness of their IVA provisioning at a segment level as well as in terms of factoring-in challenging and unpredictable market conditions.

While 2011 may not hold any big changes it will be a critical year in understanding insolvency returns. There are underlying challenges with managing existing IVAs which need to be dealt with to set creditors in good shape for the second half of 2011 and beyond to 2013 when the spending cuts will really start to bite. Fairness to customers is quite rightly higher on the agenda than ever before and creditors need to take an active role. Creditors do have influence and control particularly when it comes to understanding the appropriateness and performance of solutions and those who provide them – and now is the time to take action.



Matt Trueman,
Head of TIX

To find out more about the trends emerging in insolvencies and the data points behind this article, please email e: matt.trueman@tdxgroup.com

TDX launches new ventures team: TDX Labs focuses on the future for creditors

TDX is pleased to announce the launch of TDX Labs. TDX Labs has been set up to focus exclusively on the development of new products and services to meet challenges across the debt industry.

Stuart Bungay, Managing Director, New Ventures, commented: "Now, more than ever, we want to make sure we're working with and for creditors to help them solve their current and potential future debt management problems.

"I'm really excited that we now have a dedicated team to focus on new product developments, and collaboration with key clients and suppliers has already helped us shape the projects we're working on."

At present, the TDX Labs team is working on 11 separate ideas for new products and services which span across the recoveries sector from utilities billing and smart metering technology to secure query exchange infrastructure and debt surveillance.

If you would like to find out more about TDX Labs and the projects currently being developed, or to get involved in shaping future product development, please contact Stuart Bungay, Managing Director, New Ventures, e: stuart.bungay@tdxgroup.com

Collections / Debt Sale and purchase conference

On November 18, TDX took part in the keynote panel debate of the collections workstream at the Collections / Debt Sale and Purchase Conference. Oliver Betts, Head of Client and Product Development spoke about smart strategies and how data can help with compliance; and examined if now is the right time to invest in collections infrastructure. If you would like a copy of the slides, email: info@tdxgroup.com.

TDX Scottish Round Table

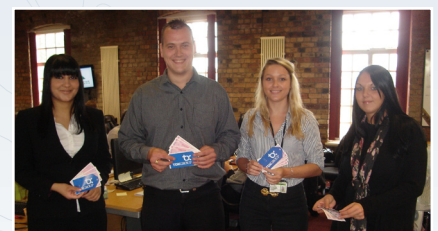
Thank you to our guests who joined us at our first Scottish event. With representatives from the financial services, utilities and media sectors, the evening featured lively debate about what the future might hold when it comes to collections performance, and when the time will be right to invest in collections infrastructure. If you are interested in joining a TDX roundtable, contact us on e: info@tdxgroup.com.

New clients on TIX

TIX (The Insolvency Exchange) has broadened its partnership with one of the UK's largest banking groups. This takes the number of new client portfolios on to TIX in 2010 to 12.

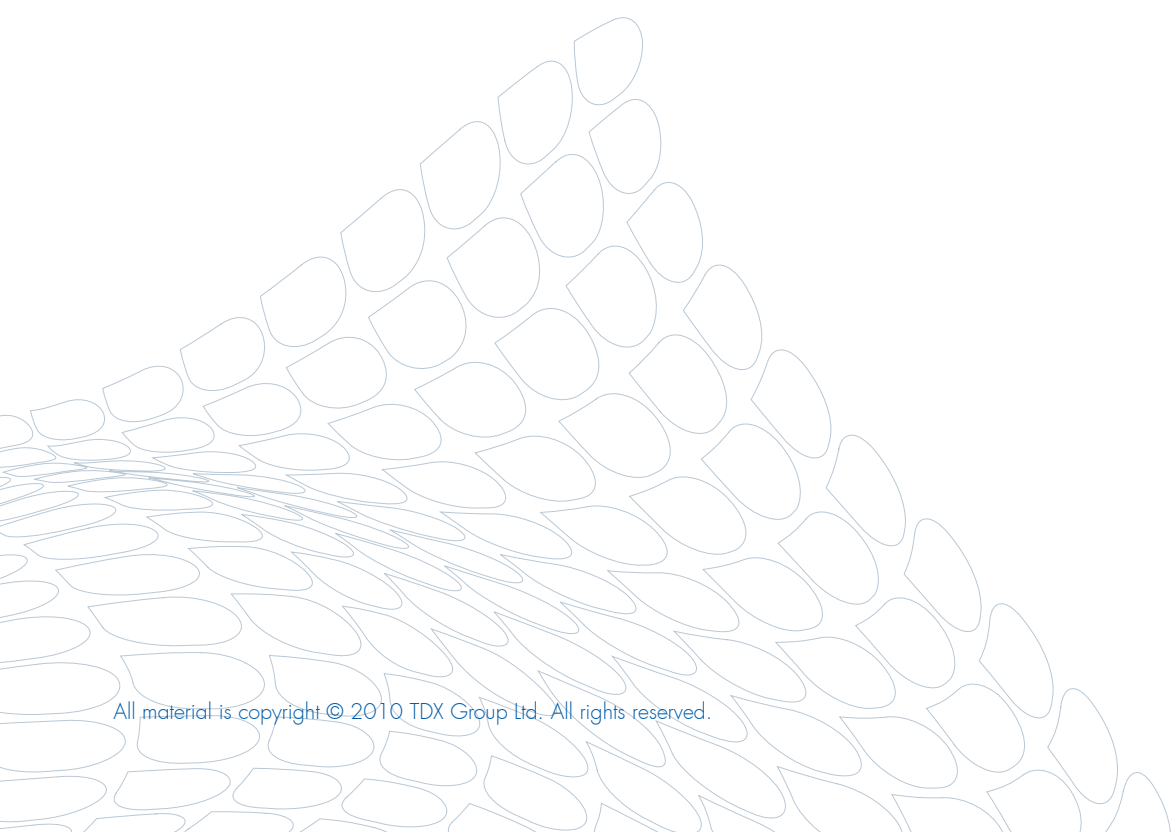
DCAs – rewarding outstanding performance

Thank you to our panel of 50+ debt collection agencies who work tirelessly on behalf our creditors. Last quarter we were proud to award holiday vouchers to collectors at Advantis, Tessera and SRJ recognising their outstanding performance.





Coming
soon...



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