ISSUE ONE 2017

The Debt Review

There may be trouble ahead

Just before the crash in 2007, we had never had it so good. The housing and stock markets were racing ahead, banks and financial institutions were falling over themselves to lend further and further into the subprime market and then the music stopped. Almost overnight the credit markets seized up and the rest is history.

Around ten years before this, the Asian financial crisis swept through East Asia decimating the emerging 'Tiger' economies and impacting severely the developed economies in Europe and North America. The late 80s and early 90s were characterised by a recession which was in itself preceded by the stagflation which dominated much of the 1970s.

Looking at this objectively (and despite many claims that the business cycle is dead) it is evident that we are in a cycle of boom and bust that resets itself, to varying degrees, around every ten years. So, is now the time to start preparing for the next downturn?

The lesson we can all learn from the past is that the time from the first signs of crisis to individuals queuing outside banks was remarkably short. Therefore, individuals and organisations need to act before any crisis hits if they are to protect themselves from the full impact of the downturn. Now is the time to take heed of the warning signals, to prepare for an increase in bad debt, and to think more strategically about how to respond.

IN THIS ISSUE

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TDXGROUP
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TDX GROUP CONSUMER DEBT REPORT 2017

An extended era of unprecedented low interest rates has to some extent masked the scale of Britons' borrowing[1], but many households are growing increasingly anxious about the parlous state of their personal finances. Some have already begun to struggle to make debt repayments. Britain may be heading towards a debt crisis, so, more than ever, the ability to assist struggling good consumers is imperative.

44% of Britons are concerned about their current personal finances.

25% of Britons would turn to their bank for advice about financial difficulties.

19% of Britons with personal debt spend 30% or more of their income each month on debt repayments.

25% of workers are worried about losing their job in the next 12 months.

46% of Britons would never give an organisation their business again if it failed to support them at a time when they owed it money.

16% of Britons have already missed a repayment, half of whom have done so since the EU referendum. 30% of these people said this was their first ever missed repayment.

28% of Britons are worried about missing future payments on debt they already hold.

[1] The Bank of England, Statistical Release, January 2017: personal borrowing had reached an all-time high in the UK by the end of 2016

About this study:

To request a copy of the full Consumer Debt Report, email info@tdxgroup.com

This extract is from a study, conducted jointly by TDX Group and the market research organisation YouGov, attempts to chart the scale of the debt problem facing Britain – and to help organisations think about how to respond more effectively to the challenges that lie ahead. All figures, unless otherwise stated, are from YouGov Plc. Total sample size of 2,162 adults. Fieldwork was undertaken between 05 – 06 December 2016 and the survey was carried out online. Figures have been weighted and are representative of GB adults (aged 18+).

Macroeconomic outlook 2017

In 2017, large economic changes (rather than micro industry wide triggers) will deliver the challenges across collections and recoveries. The key focus must be to maintain flexibility around strategy and suppliers, whilst also building capacity to deal with an overall increase in delinquency and default.

Rising inflation squeezes disposable income

The devaluation of the pound and the fact that the new Government has signalled the end of austerity in the UK, means we should expect to see inflation creeping up in 2017. It is our view that inflation will be in the 2% to 3% range by the end of 2017 and whilst this is not high by historical standards, it does represent a significant movement when compared to the last five years.

> "… inflation will be in the 2% to 3% range by the end of 2017."

Typically inflation impacts different consumers in different ways and won't be evenly distributed. People living with financial difficulties or problem debt are more likely to be subject to a higher personal inflation rate than those not in debt, driven by lower incomes, higher housing costs and the rising cost of everyday expenditure like food, heating and travel.

Interest rates remain stable

If inflation does exceed 2% then eyes will quickly turn to the Monetary Policy Committee, within the Bank of England, to see whether they will react and raise interest rates. During the acrimony of the Brexit vote, some of the walls around the independence of the Bank of England began to look a little less solid. However, it now appears that political involvement in setting the Bank of England base rate will remain indirect and it is likely to remain unchanged during 2017. This will continue to provide relief for those most indebted individuals who are especially susceptible to small movements in the base rate.

> "… we anticipate that real wages will remain at current levels or marginally erode over the year, impacting real disposable income."

Limited real wage growth

Growth in the living wage is expected to continue towards the Government's stated aim of £9 per hour but outside of this gradual increase, we would expect to see very little growth in UK median wage rates during 2017. The challenges thrown up by Brexit and rising import costs are likely to see UK firms focusing on cost reductions in order to remain competitive in the domestic market. So, with inflation expected to grow, we anticipate that real wages will remain at current levels or marginally erode over the year, impacting real disposable income.

Impact on consumers

Against the backdrop of these macroeconomic factors and coupled with falling consumer confidence, we expect to see a decline in overall consumer spending in 2017. While consumer credit has been growing since the 2008 financial crisis, it is our expectation that this will begin to flatten in 2017.

Consumers with good affordability (particularly homeowners with equity) will have access to a wide range of cheap credit, but will be less likely to take-on any new unsecured credit in the next 6 -12 months and will remain focussed on paying down existing commitments. Whereas, households with lower affordability are more likely to use expensive credit products to get through the month and it is likely that where this population has access to credit they will continue to borrow.

Given the continued macroeconomic turbulence expected in 2017, we are likely to see an increasing number of 'new' customers entering into collections and recoveries who are unused to dealing with arrears and will expect a different type of engagement from their creditors.

> "… we are likely to see an increasing number of 'new' customers entering into collections and recoveries who are unused to dealing with arrears …"

In summary…

In 2017 the level of economic uncertainty is probably greater than at any time since the financial crisis almost a decade ago. Here in the UK, we have to navigate the fall-out from an inconclusive general election vote, and Brexit as well as ongoing budgetary and banking crises. All these factors create further uncertainty around the key macroeconomic indicators.

Stuart Bungay
Group Product and Marketing Director

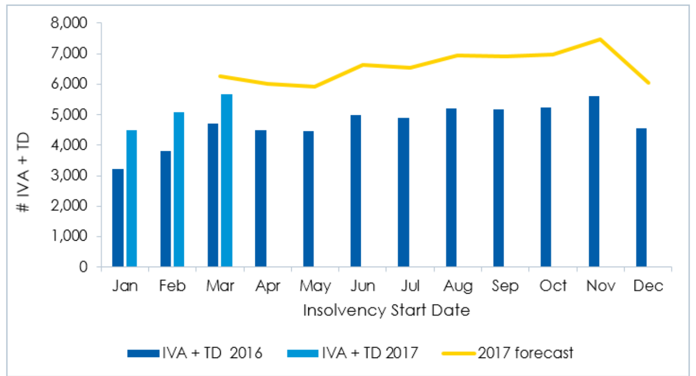
Time for change: our recommendations

There has been a period of significant growth and change in the Individual Voluntary Arrangement and Trust Deed market through 2016 and 2017. With volumes set to return to, or even exceed, levels seen prior to the credit crunch, it's time for a step change so that consumer outcomes are protected, creditors have faith in personal insolvency debt solutions.

As reported in Insolvency Market Trends, volumes of new Individual Voluntary Arrangements (IVAs) and Trust Deeds (TDs) continue to grow significantly. In the first quarter of 2017 we have seen a 30% increase in new IVAs and TDs with 15,235 recorded. This is in contrast to the normal post-holiday seasonal trend we usually see, where there is a more gradual build up in volumes through the quarter.

The growth continues to be driven by a roll through from increased unsecured lending in recent years; fallout from the FCA authorisation of debt management including increased marketing by commercial debt solution providers; and affordability challenges for consumers as costs increase and wage growth stagnates, which is particularly prevalent for near and sub-prime consumers. In summary, our forecast is that new IVAs and TDs annual growth will be around 30% in 2017. To provide some context, 30% annual growth will see new IVA and TD volumes returning to, or possibly exceeding, numbers last seen after the credit crunch.

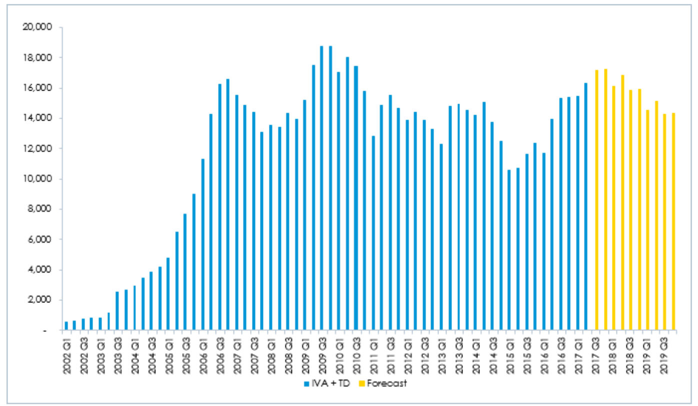
2017 / 2016 new IVA and Trust Deed volumes comparison



2017/2017 volumes and percentage change

	January	February	March	Total
2017	4,498	5,076	5,661	15,235
2016	3,205	3,808	4,694	11,707
Difference	1,293	1,268	967	3,528
Percentage change	40%	33%	21%	30%
Working days	21	20	23	
Average per working day	214	253	246	

IVA + TD volumes and forecast



2015 represented a turning point

In the lead up to 2006 the UK experienced an explosion in personal insolvency volumes driven by changes in legislation and the resulting emergence of 'factory' type firms commoditising personal insolvencies through mass marketing and production line operational processes. Post credit crunch, volumes fell, mirroring the contraction in unsecured lending/borrowing. The intervention of the FCA in regulating debt management firms from April 2014 saw a further fall in new IVAs and in Scotland TDs. However, since that time, a gradual increase in consumer credit has created a gap in the market which, since the second half of 2015, has been filled by mono-line personal insolvency providers who, unencumbered by FCA regulation, have grown rapidly. Additionally, now that the larger debt management providers have received full FCA authorisation they can once again invest in consumer marketing.

Personal insolvency regulation needs to change

In response to the changing market and increasing volumes, it's time for a step change so that consumer outcomes are protected, creditors have faith in personal insolvency debt solutions (both in terms of consumer outcomes and maximising the commercial returns due to them) and providers can effectively operate in a regulated environment.

Over the last 12 months, we have worked with industry regulators to support them in identifying and eliminating the irregular practices we have seen building up in the industry since the second half of 2015. Progress to date includes:

- Changes to the disciplinary committee processes;
- Additional monitoring visits completed following evidence sharing to regulators;
- Increased pressure on Category One and Two Disbursements, including 'commission' payments;
- Intelligence and data now being requested by regulators to support monitoring visits and to target focus; and
- Significantly increased focus during monitoring visits on client account reconciliation.

However, there is more to do particularly around transparency in the regulation of the market, and a cross-sector approach is critical if we are to work together to raise overall regulatory standards.

We are asking the Insolvency Service to engage with Regulators (RPBs Recognised Professional Bodies) to deliver both short and long-term change.

Tactical (short term, tactical goals to be implemented quickly):

- Transparency of regulation and monitoring, including the publication of monitoring visit outcomes and creditor representation on the appropriate committees.
- Transparency of provider performance for consumers so that they can make informed decisions when they chose an insolvency provider.
- Align regulation to a two tier market, including an enhanced regulatory framework for volume personal insolvency providers and financial viability assessment on firms.
- Regulate all lead providers. Any organisation passing leads to IP firms must be directly regulated/personal insolvency firms are regulatory responsible for the debt advice provided through the lead generation process.
- Powers and authorities extended over the entire firm for large providers. Any firm offering IVAs/TDs to be subject to regulatory sanction, rather than just the individual Insolvency Practitioner (IP).

Strategic (a clear long term strategy to be defined by regulators to include a principles blueprint for future regulation):

Single regulator
The Personal Insolvency sector, or at least the 'top tier' firms, may benefit from a single regulator with more understanding of wider consumer based regulation and agility to monitor firms in that space.

Firm level licencing
Regulation of Personal Insolvency should be at firm level, as well as individual IP level.

Register of related parties
Insolvency Practitioners, Directors, and owners of Insolvency Providers should be compelled to make public via a register all businesses that they have a stake in.

Commensurate sanctions
Sanction of firms should be at a level commensurate with the consumer and creditor impact.

Modernise IP roles
Recognise the blending of Nominee and Supervisor roles in Personal Insolvency and streamline regulation/rules where necessary.

Extended monitoring
Formalise any extensions of scope and continue to evolve communication plan to stakeholders.

It's important that consumers can access high quality debt solutions including personal insolvency with two tier regulation (FCA for debt management and the Insolvency Service) through Recognised Professional Bodies, because personal insolvency has the potential to deliver poor consumer and creditor outcome. However, now is the time for the industry to work together to ensure personal insolvency regulation is enhanced to meet the needs of a changing industry and to bring it in line with the FCA's regulatory principles.

Richard Haymes
Head of
Financial Difficulties

The difficulty with financial difficulty

A 'one size fits all' approach to customers in financial difficulty can risk customer detriment and generate negative returns – so how can you drive improved outcomes on these cases?

At TDX Group we care passionately about financial difficulty. We know that when you get the treatment paths right, with fair and appropriate activity tailored to customer needs, then you are much more likely to get a better customer outcome and improved net returns. Truly, better for everyone.

However, as everyone in the industry knows, the theory is great but in practice it can be hard to identify financial difficulty upfront. You can have all the best plans and strategies in the world, but if you don't put the right people into those paths then your efforts are wasted. We have found that when these accounts are treated in a 'standard' way they will generate significantly lower returns. By the second placement, they are clearly generating negative financial returns – where the cash collected doesn't even cover the cost of the collection activity. And that's before you take into account the less than ideal experience the customer might have had.

Having been able to access unique Equifax data to identify customers likely to be in financial difficulty, we have run some trials to direct accounts into a dedicated financial difficulty treatment path with the intent to test how customers would react. The sort of identifiers of distress we are looking for are where the customer has lots of other accounts in default, unsatisfied CCJs and/or a track-record of receiving debt collection activity. A typical portfolio might have 20-30% which fit this criteria – less than you might think, but a big enough group that warrant a different approach.

Our tailored approach for these customers includes:

- A changed tone in communications, offering help and support.
- Specialised agent treatment to improve volume of affordability assessments (I&E).
- Shorter placements, lower activity and reduced recycling to lower cost and reduce potential consumer stress.
- Alternative 'outcome' based commercial model for debt collection agencies.

Success is not just measured on cash collected, but on contact rates, completed I&Es, account resolution and so on. Our trial is ongoing, but initial findings are incredibly positive with engagement remaining high in spite of lower levels of activity. If you would like to find out more about the TDX Group approach to treating customers in financial difficulty, please email carlos.osorio@tdxgroup.com.

TDX Group insight

On our blog (www.tdxgroup.blogspot.co.uk) we discuss many topical matters for the debt industry. Here's a selection of our recent posts.

Can voice recognition technology really help in the traditional world of debt collection?

Tommy Mortberg, Solution Designer, TDX Group

Extract from 9 March post

Nowadays most of us are used to voice assistants, such as Apple's Siri, Microsoft's Cortana or Google's Assistant in our handsets. And I doubt that many people, at least here in the UK, managed to avoid Amazon's home solution Echo, with the integrated assistant 'Alexa' in the lead up to Christmas.

With these applications becoming more commonplace, many people in the tech industry are talking about voice becoming the next big user interface … You might well argue that it won't impact our industry, after all how much did smartphones really change the way we collect overdue debt? It is true that we as an industry haven't done much to embrace innovation in the smartphone space but it has had quite a large impact indirectly.

The truth is that the biggest benefits to collections through voice are already being implemented across the world through the use of speech/voice analytics. This technology uses software to transcribe full phone calls with ease and pick up key themes and words. It can also identify tones and trends from voices and an array of other data. Voice recognition is already helping our industry in core areas, such as compliance and call centre management, and with further investment the usefulness and power of it will grow further.

Beware the headlines: are pensioners really better off?

Kirsty Macpherson, Head of Marketing, TDX Group

Extract from 22 March 2017 post

Last month there were some interesting reports about the state of the finances of those in retirement. On the face of it, they looked contradictory.

One Monday in February, working families learned that in spite of their hard graft to make ends meet, those in retirement were better off than they were. On the same day, the BBC's deconstruction of this same report highlighted that pensioners are better off *only* when you have accounted for housing costs. But, by Friday of the same week, we learned the burden of debt (debt which, surely, will just never get paid off) is growing for those in old age.

Looking at the data we hold at TDX Group on the demographics of those entering personal insolvency (those in the most desperate financial troubles) I found out:

- More pensioners are finding themselves in financial difficulty.
- Pensioners' income isn't growing – they are just exposed to less economic volatility than those of working age.
- Pensioners in financial difficulty owe more than those of working age.

Looking at all the headlines and our own data at TDX Group, I'm left with two overriding feelings. Firstly, it feels wrong that pensioners (who have fewer options to get themselves out of financial difficulty than those of us of working age) are increasingly finding themselves struggling with debt. Then, thinking more broadly, my overall conclusion is that it just goes to show how careful you have to be to understand someone's financial circumstances in the round.

The business cycle is very much alive

Stuart Bungay, Group Product and Marketing Director

Extract from 21 April 2017 post

As we look at the economy in 2017, stock markets are back at record highs, housing markets are rallying, lending continues to rise and many of the underlying structural issues that caused the 2007 crash remain unchanged. On the public sector side, government debts are spiralling and student loans have reached record levels. To be blunt, the warning signs are everywhere and once again we find ourselves in a credit fuelled bubble that will, like all bubbles, inevitably pop.

The activities of one of our clients in the year leading up to the financial crisis perhaps gives us all a lesson or two we can learn in the current situation. Accepting that the economy was overheated our client embarked on a strategy that encompassed two key elements:

1: Fix the collections and recoveries process

To ensure the process in collections and recoveries was truly fit for purpose and scalable, they invested, up-front, in this capability to ensure that when volumes did start to increase they were ready to respond.

2: Clear out all warehouse and legacy debt.

This client also embarked on an ambitious programme with us to divest all outstanding warehouse debt that resulted in the sale of around £1-2 billion of assets. The programme was so successful that as the crisis hit at the end of 2007, non-performing loans on the balance sheet were at an all-time low almost to the extent that there were no post default accounts.

Hindsight truly is a wonderful thing, but I think there is logic in really looking at the economic evidence around you and, using history as a guide, being prepared for what lies ahead.

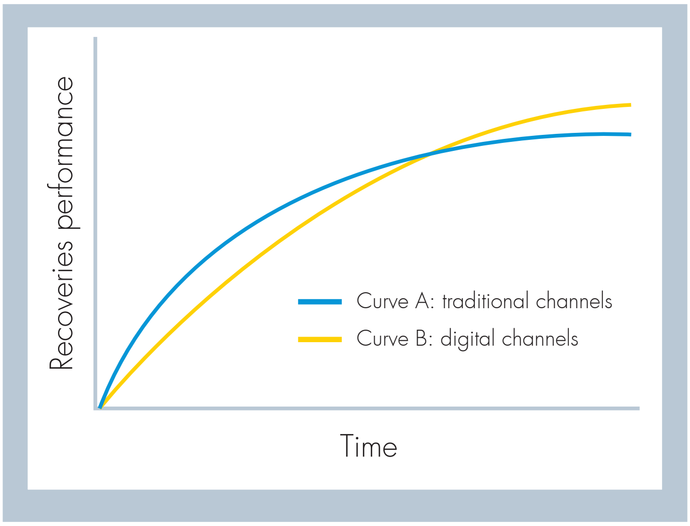
Read the full versions of all these blog posts at www.tdxgroup.com/blogspot.co.uk

The future is digital – right?

When it comes to debt recovery, is digital really all it's cracked up to be?

Everyone knows digital is a massive part of how we manage our lives. Not surprisingly, internet companies now dominate the leader board when it comes to global market capitalisation, making up 40% of the top 20 companies, and 100% of the top five[1]. And, consumer demand continues to grow; when it comes to customer service, the first 'ask' of most (60%) of consumers is easier access to online support channels[2]. However, when it comes debt recovery, is it really all it's cracked up to be? It might be a low cost channel for organisations and as consumers we might like socialising and shopping online but does that inevitably mean that it is effective for debt recovery?

Interestingly we've discovered, on a 'like for like' random account sample test, it performs a bit like this:



Both recoveries curves start steeply then taper off over time. Initially, traditional channels (curve A) continue to out-perform digital (curve B) – but as time progresses, digital overtakes traditional. The use of digital, even with this rather simplistic approach can still be valid; as a low cost channel you can still get good returns – but proceed with caution – for those most suited, we've seen digital collections paths generate an uplift of ~130%, whilst those most misaligned to digital activity can see a negative return, compared to a traditional collections route.

To unlock the real value (both in returns and positive customer experience) the key is, firstly, finding the actions you need to take to close the gap between the channels at the start of the recoveries process. We have found that, unsurprisingly, it's all about using the right communication channel for the right person. Whilst generally there is broad adoption of digital channels, your personal preference and engagement is likely to be somewhat predictable and indicated by a number of factors. These include obvious things, such as your stated contact channel preferences, but also more broad elements such as whether you opened the account online, whether you downloaded the app to manage your account, through to your age (whilst digital is being embraced by all ages there is still a greater level of usage from those that have grown up with email and smartphones). So, in the initial stages, it's critical to pinpoint those who will be receptive to digital collections strategies and target only them, contacting others via more traditional routes. However, later in the process, broadening out the usage of lower cost digital channels through early recycling of the digital accounts can help to sustain net performance. This carefully blended approach of traditional and digital can create a new experience and positive results.

In summary, digital contact channels don't work for everyone and a blanket approach will lead to negative returns compared to more traditional activity for certain groups of customers. What is a given, however, is that agencies are still only scratching the surface of what digital can do and the proportion of consumers where digital collection strategies will be more effective is only set to grow. Now is the time to make the investment in being able to align customers with the right contact channels in order to optimise customer engagement, ultimately leading to the right outcome in terms of both customer experience and financial return.

Matt Wallis
Lead Solution Designer

[1] Mary Meeker, 2017 Internet Trends
[2] Ovum Get It Right: Deliver the Omni-Channel Support Customers Want. Survey of consumers ages 18-80 in Australia, Europe, New Zealand, and USA.

COMPANY NEWS

January | February | March | April | May | June

April 2017
Personal insolvencies set to rise by as much as 30% in 2017

Our latest Insolvency Market Trends data highlights that new Individual Voluntary Arrangement (IVA) and Trust Deed (TD) applications continue to rise and volumes could increase by as much as 30% by the end of the year.

Richard Haymes, Head of Financial Difficulties at TDX Group, said: "When we look at the number of IVAs and Trust Deeds recorded, the year-on-year figures are quite startling. We saw a 45% increase in January 2017 versus the same month in 2016 and an increase of almost 20% in February 2017 against 2016 levels."

January 2017
Level of unemployed Brits with serious debt issues has tripled since the credit crisis

- Those in rented accommodation account for 76% of IVAs, compared to 49% in 2008.
- Individuals with an IVA have seen a 6.3% fall in monthly income but expenditure has risen by 4.0%.

Analysis from The Insolvency Exchange, part of TDX Group, reveals that 17% of people who hold an individual voluntary arrangement (IVA) are unemployed, compared to just 5% in 2008. The proportion of benefits income for those with an IVA has also more than doubled, up from 10% in 2008 to 25% in 2016.

"Since the credit crunch in 2008 the profile of the typical consumer in serious financial difficulty has altered significantly, reflecting changing attitudes to borrowing and the squeeze on incomes resulting from economic uncertainty."

May 2017
Award wins: Nottingham Post 'Contribution to the Community' and Credit Strategy 'Best company to work for in Collections'

We are delighted to announce that we won the Nottingham Post Business Award for 'Contribution to the Community' – thanks to the phenomenal efforts of our employees who, in 2016, raised more than £97,000 for charities in and around the East Midlands.

This win comes off the back of another tremendous accolade we received earlier in the month at the Credit Awards where we were awarded 'Best Company to Work for in Collections'.

Children's Bereavement Centre

Inspire Nottingham

MAKE THE CONNECTION
Everybody wins.
www.tdxgroup.com/csr

Are you up for the challenge?
TDX Group 12 hour cycling challenge

This year we've set ourselves a new cycling challenge and would like you to join us.

- Ride 250 km back to TDX Group's Nottingham office (start points to be allocated).
- Start at 6am on Friday 08 September.
- Teams of five but one must be driving the support vehicle.
- Two cyclists must be out on the road at all time.

We would love you to get involved. If your organisation would like to enter a team we'd be delighted! But if you don't have enough people to form a team of five – still get in contact!

We are asking for a £250 donation per team, plus a commitment to raise a minimum of £250 per team for our charities (any money raised above this would be greatly appreciated, however we understand that you may have another charity in mind that you would like to support). Your organisation's logo will feature on all of the cyclists' shirts.

Email MakeTheConnection@tdxgroup.com for more detail.