

Collections and recoveries in a perfect storm

In a new world of increasing regulation, growing ESG commitments and the need for ethical collections during a continuing cost of living crisis, where do creditors go from here?

The power of understanding.

How do you collect while treating customers fairly? How do you maintain your reputation while meeting commercial targets?

And, in what appears to be the perfect storm for our industry, how do you respond to those ever-evolving consumer protection regulations?

In our latest white paper, we take a look at the pain-points facing the debt collection industry right now, and consider how these challenges might be best resolved.

Rising debt increases risk

There can be little doubt that our current economic climate is both complex and challenging. Consumers across the UK are under huge financial pressure with the cost of living crisis forcing them to juggle their finances. From energy and entertainment to fuel and food, costs are on the rise, with no sign of them coming down any time soon.

UK consumer debt in 2023

- Total personal debt in the UK is estimated to reach **£1.84 trillion**
- The average debt per person is estimated to be **£34,546**
- The average debt per person is **105% of the average UK annual salary**



of eligible low-income households are yet to take advantage of specially-discounted superfast broadband deals.

With record numbers of households struggling to afford their communications services, Ofcom is urging telecoms firms to do more to support their customers through the cost-of-living crisis.

Sources:

ofwat.gov.uk/regulated-companies/vulnerability/water-companies-efforts-to-ease-cost-of-living-pressures-and-areas-for-further-action/

ofcom.org.uk/news-centre/2022/record-number-of-households-struggle-to-pay-bills

finder.com/uk/debt-statistics



8M

households are having problems affording communications services - doubling since 2021.



33%

of water customers expect their situation to worsen in the coming year.

Ofwat and CCW – the consumer representative body for water customers in England and Wales – wrote to all water companies in October 2022 to ask them to set out their plans for supporting customers through cost of living pressures.

That said, for many creditors the most effective avenue is to outsource collections by working with a professional debt collection agency. TDX works with best-in-class panel of expert debt collection agencies, all of whom we support with our unique data insights – including from Equifax – education, and proven strategies for communicating effectively with consumers, including the most vulnerable.

THE RISING COST OF LIVING AND ITS IMPACT (LATEST GOVERNMENT RELEASE):



87%

of adults reported an increase in their cost of living over the previous month a year ago.



23%

of adults reported that it was difficult to pay their usual household bills in the last month, compared with a year ago.

Source:
<https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/articles/therisingcostoflivinganditsimpactonindividualsingreatbritain/november-2021tomarch2022>

Late and non-payments are very real risks

The reality is that many consumers are having to make difficult decisions about who to pay, and when. Many will be allowing some of their debt to go unpaid for as long as possible, while others will default entirely on a debt, forcing you down the legal path.

Time for a new approach?

The fact is, in our challenging economic environment, if you want to reduce the risk of a debt turning bad, it's vital that you adapt how you approach collecting. The same is true if you need to improve collections, are looking to cut costs while maintaining margins.

Early intervention is key. The earlier and better we understand who is at more risk from financial problems, the more we can do to protect those people and find them a safe way out of debt. It's also a good idea to build a relationship by staying in close contact with consumers in debt. You can then make a better informed assessment of their ability to pay, and their willingness to settle the debt.

The expertise of collection professionals

Partnering with experienced experts can help not only when you might already be struggling to recover a debt, but before things get to this stage. With proven strategies that have been hard-tested over many years, the professional debt collection agencies on the TDX panel are better placed to deliver results than in-house resources. The best will focus on the needs of vulnerable customers and their individual circumstances. They'll then tailor their collection strategies in a way that is sympathetic to consumer's ability to pay.

Involving a debt collection and recoveries agency sooner rather than later should mean that the consumer places you higher on their list of creditors, so that they prioritise payment of your invoices and you have more chance of receiving prompt settlement.

Reducing your costs, and saving you time

Right now, the relentless pressure to reduce costs and improve collections while treating customers fairly, can often seem mutually exclusive objectives. At TDX, we believe the answer is to work smarter, to be led by data science and to use analytics and segmentation to invest your resources in the right way.

It's also vital that you see customers as individuals, and get to understand their story. Only by understanding their circumstances can you adapt your collection strategy to their needs, and tailor a collection programme to one that suits these needs. A more personal approach brings down the shutters and opens up the lines of communication: essential if you're not going to lose a customer (and the money they owe) along the way.

Responding to increased consumer protections

Of course, we can't overlook the fact that all collection activities across the UK are being conducted against a background of increasing regulation across all sectors.

So while we know our clients are concerned with how they can support vulnerable consumers in debt, they also need to ensure they are evidencing what they are doing to meet regulation.

Balancing compliance and results

You need to be fair. You need to get results. You need to do so responsibly, ethically and efficiently. It's a task, but one which is made all the easier with robust collection strategies that are not only proven to maximise collections, but which demonstrate that you are treating customers fairly.



**£850M
RECOVERED
ANNUALLY**

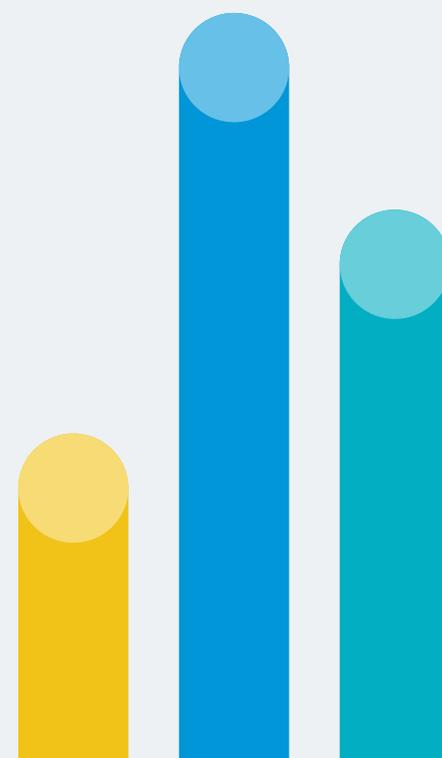


1.9 MILLION
impactful and supportive
conversations with consumers.



44,000
vulnerable consumers have
received our communication,
encouraging engagement and
offering support

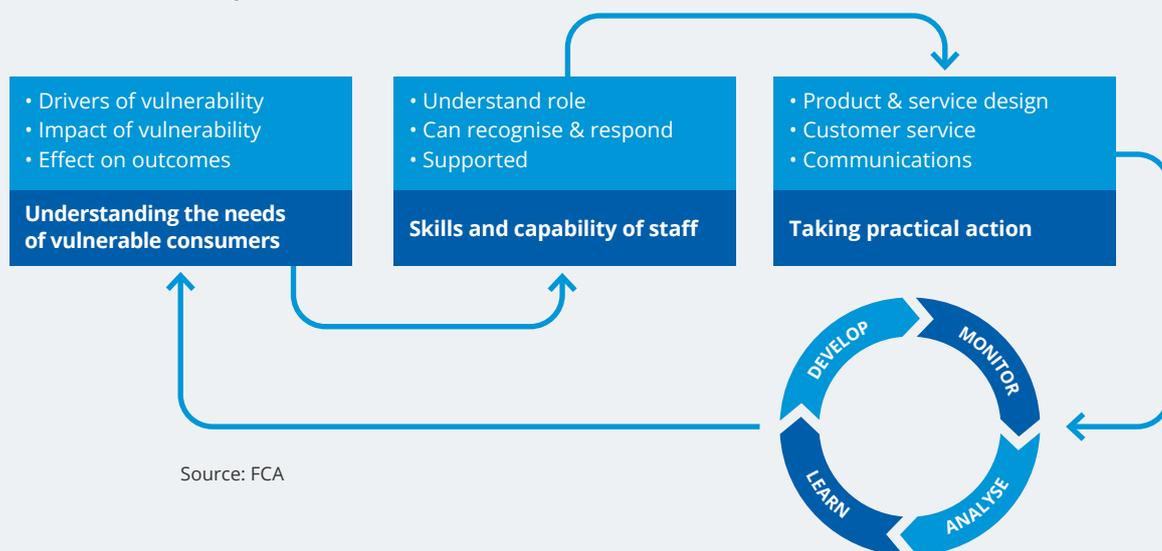
Source:
TDX Group 2023



Which brings us to another aspect of our perfect storm: complying with current regulations and showing that you are acting responsibly.

The FCA offers clear guidance

The Financial Conduct Authority (FCA) exists to protect consumers, which of course includes protecting vulnerable consumers. It means vulnerable consumers experience outcomes as good as those for other consumers and receive consistently fair treatment.



The FCA provides clear guidance in treating customers fairly.

You can read it in full here <https://www.fca.org.uk/publications/finalised-guidance/guidance-firms-fair-treatment-vulnerable-customers> though the key considerations are pretty direct.

These are for you to:

- Understand the needs of vulnerable consumers
- Improve the skills and capability of frontline staff
- Take practical action by:
 - Designing products and services that put consumer protection at their core
 - Setting up customer service that responds flexibly to vulnerable consumers
 - Making communications understandable, pointing consumers to support available to them, and offering multiple communication channels so vulnerable consumers have a choice
- Monitor and evaluate processes and information

The FCA will hold regulated firms to account against these principles. It will require them to demonstrate how the actions they have taken – and their own culture – ensures the fair treatment of all consumers, including those who are vulnerable.

Building sustainability into your collection activities

Of course, evolving FCA regulation is only one part of the perfect storm faced by creditors in 2023. Another is the spotlight on environmental, social, and governance (ESG), which continues to intensify.

Businesses are increasingly being called upon to disclose more about their ESG performance and strategies.

Again, working with partners who have carefully considered ESG positions that place the consumer at the heart of every decision, your collections needn't come at the cost of your reputation.

For example, TDX and its debt collection partners use data science, advanced technology and innovative processes to continually improve collection activities and establish sound ESG protocols. That means adding social value and driving down the cost and carbon footprint of your collection activities. Working smarter means less legwork, less travel, less strain on valuable resources.

Supporting your own employees

Overall, the collections sector already operates in a highly regulated and accountable environment where competitive pressures from collectors and creditors drive good ESG practices.

In terms of social value, there is a premium placed on debt service providers who contribute positively to their community, and who show a dedication to improving the quality of life, career prospects and training of their staff.

That's why we are finding many who operate in the collections sector are seeing the benefits of skills investment and apprenticeships for their colleagues. These investments illustrate good employment practice and a long-term commitment to local economic contribution.

Our role in answering the spectrum of collections industry challenges

At TDX we are on a mission, and that mission is simple, we are committed to redefining the debt industry. In particular, we are looking to lead the way by raising standards in ethical and effective debt collection. **So we will be...**

Engaging early

The sooner we understand who is at risk of financial problems, the more we can do to protect those people and find them a safe way out of debt. That means working with clients to encourage early interventions and engagement, and continually improving our communications. Our aim is to be clear and easy for consumers to understand, whatever the situation.



**1,000
HOURS**

**of community education
provided by TDX Group.**

Source:
TDX Group 2023

Giving the frontline the skills, flexibility and tools to do the right thing

Whether that is helping the debt collection agency offer the right payment plan, or to quickly and accurately understand what they can afford to pay, we continually improve our service for consumers. We will continue to invest in training and education to ensure our front line teams have the skills and confidence to support you in how you speak to consumers, especially those who may be vulnerable.

Working smarter with the best data

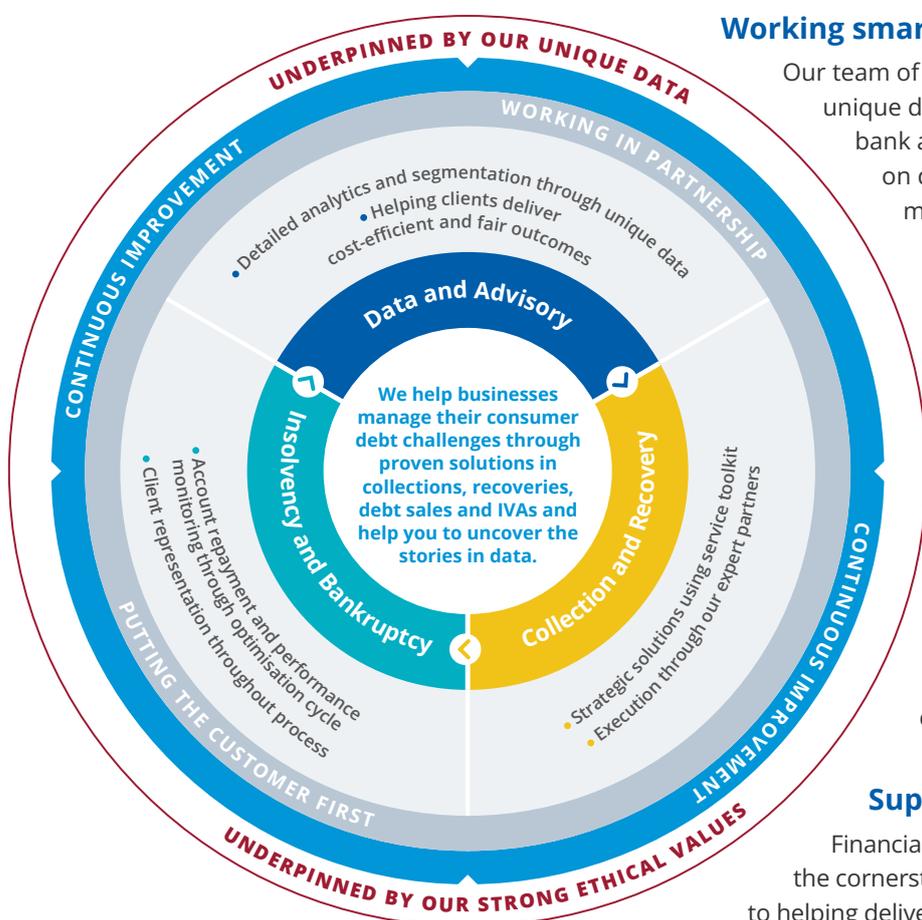
Our team of expert data analysts combine the power of unique data insights from Equifax, from credit files, bank accounts and from millions of quality checks on debt collection agencies and much more. It means we can better understand different consumers, and work with them in smarter ways to find their best way out of debt.

Partnering with experts

We only work with best-in-class partners who share our passion to find new ways to make the debt sector work better. This we will do by improving services for consumers, raising industry standards, promoting environmental, social and governance standards, and by making certain our work has a positive and lasting impact for consumers, clients and communities.

Supporting financial education

Financial education, training and research are the cornerstones of what we do. We are committed to helping deliver financial education to over one million consumers over the next three years. To do this, we are partnering with expert partners, suppliers and clients to continually improve the products and services we provide to improve consumer confidence in how they manage their money. At the same time, we are creating opportunities through schools and colleges to give the next generation of consumers the financial skills they need too.



How can we help you?

While the collections and recoveries industry is facing often unprecedented challenges in the near future, our clients can rest assured that they have a team by their side who not only understand their challenges, but have their, and their customers' best interests at heart.

**Book a free consultation
to find out how we can help
your organisation**

tdxgroup.com/contact

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