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CONSOLIDATION OF PANELS:

WHAT DOES THE FUTURE HOLD?

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In association with CCR Magazine, Qualco UK hosted a provocative roundtable session in which the consolidation of agency panels and associated challenges were examined.

Senior level executives from the financial services, insurance, utilities, telecoms and debt purchase sectors offered a dynamic exchange of opinion, with each sector facing its own unique experiences. Participants included:

Colin Baldwin, credit risk manager, Smartest Energy;
Christian Jacob, managing director, Qualco UK (CJA);
Clive Jacobs, credit manager, Dong Energy UK (CJ);
Andrew Jackson, head of collections & recoveries, Funding Circle (AJ);
Gary Jones, director, collections services, HSBC;
Debbie Karahassan, recovery & litigation manager, BMW Group Financial Services (DK);
Jan-Michael Lacey, head of sales, Qualco UK (JL);
Andy Lawrence, technical lead – collections and credit management, Aviva UKGI & I;
Graham Price, director of external collections, Lowell Group (GP);
Daniel Sheppard, DCA manager, Three (DS);
Stuart Sykes, group head customer operations & debt recovery, MyJar (SS);
Stef Trovato, third party collections controller, Dong Energy UK; and
Jannie Vermeulen, credit risk officer, Fleet Mortgages (JV)

> “IT’S VERY MUCH MORE OF A PARTNERSHIP ARRANGEMENT NOW”

The overriding consensus amongst participants who outsourced their collections activities was that agency consolidation was already well underway, if not complete. In particular, the introduction of the FCA and the need for compliance in a new regulatory environment made it impractical for financial services representatives to maintain large panels. Plus, across the board, increasing M&A in the outsource market found a number of firms in a position whereby their panels reduced overnight.

One of the key findings during the incisively curated discussion, chaired by CCR editor **Stephen Kiely**, was that originators have shifted their view in managing panels. The majority reported the need for a partnership approach to not only achieve better results, but now more importantly to achieve customer rehabilitation and their retention of business.

Daniel Sheppard, DCA manager at Three, said: "It is very much more of a partnership arrangement now, rather than just sending the accounts out to get the money, as much and as quickly as possible. For us it is very much about retention – in the mobile industry, if we can keep the customer base, it is certainly cheaper for us.

"So even at our first placement, we need to have a strong relationship with our panel to work with them to make sure that we can keep the customers. When we are getting to the second placements, then it is more about finding ways to engage with those customers who we cannot get hold of."

Christian Jacob, managing director of Qualco UK, said: "We see multiple agency strategies, and we see what works across the board. Qualco has 27 live agencies that report daily into the system, so it is possible to analyse which activities 'simply take place' and which are the best activities over time. This means that you can compare your internal agency strategy with your external agency strategy, and you can compare it across the board aided by the rich data that comes in from external agents. We always undertake like-for-like comparisons – you need to have an overall view before you make any assumptions over which process is best."

Graham Price, director of external collections at Lowell Group added: "The consideration that the behaviour of the partner, which you are engaging with, has to be up to scratch and then what you do about it when they fall short is absolutely paramount. When I am having these conversations, I am almost taking it for granted that we will always do the compliance element effectively. Withdrawing accounts from a partner who will not listen and will not up their game when it comes to treating customers fairly, is something that we have done and will continue to do. What is left after that is the commercial optimisation process."

Meanwhile, **Debbie Karahassan,** recovery & litigation manager at BMW Group Financial Services, said: "We used to have a larger number of DCAs, now we have just two. A great deal of work has been completed over the past year to improve our supplier monitoring."

"If you have a large number of DCAs, it becomes impossible to monitor them all closely, and reach consistency in terms of their service levels and, ultimately, how our customers are treated."

"The KPIs, quality control and on-site audits are consistently applied across all our suppliers. We have increased our face-to-face contact with our providers, and regularly meet the senior team on site."

"This is an excellent way to build a close partnership with common goals, as well as improving the ultimate customer outcome."

"THIS IS AN EXCELLENT WAY TO BUILD A CLOSE PARTNERSHIP WITH COMMON GOALS, AS WELL AS IMPROVING THE ULTIMATE CUSTOMER OUTCOME."

Here is what the rest of the group had to say on whether panels were increasing or decreasing in size

SS: It depends on your internal book size and what you are getting in your first and second placements. We have reduced, we had four placements and I now run two, but a lot of that was forced upon us by the change in regulations last year. With the way that the pricing structures of short-term loans are, I cannot pass any of that on to our customers – I cannot pass on a fee that I am charged by a DCA. So we had to change our entire model.

CJ: Whilst consolidation has progressed, there is much more sales activity going on now because everyone is looking for somewhere to go.

There are still some differences between agencies – some are pre-legal, some are trace and collect, and so you can still champion-challenge between them.

JV: You need to ask what makes you outsource in the first place, why do you not just do it yourself?

CJ: Very often the problems that you have internally are the reasons why you have to collect. For example, in the utility sector, sometimes customers will move for very legitimate reasons, but if you do not correctly identify that, then you are left with a problem when you try to collect.

With those, it can make good sense to outsource because you would need to spend a considerable amount of your time trying to trace them. It is not a question of sending your standard letter and expecting them to reply,

because the property will still be there, but someone else will have moved in, and you do not know that.

JL: Another inherent benefit of outsourcing for most originating creditors and utilities is that your core business is not collecting debt, rather it is lending money or providing a service. Collections is applied at the back end of the business because it is a function that needs to be done. There will be customers who respond immediately to your calls to pay, but also there will be a population of customers who cannot, or will not, pay. For my mind, if you look at debt collections agencies and debt purchasers, they will invest far more in the tools to do the job – those tools will include training the staff to do the job, to have appropriate conversations which are usually challenging in nature. It could be the latest technology including speech analytics, it could be external data with advanced analytics applied. What we tend to see with all our clients is that they will have a wish-list of things that they would love to be able to do – it will be a very long list involving copious amounts of IT, additional resources and investment, but, because it is not the core business, that wish-list will never be delivered.

The resources are usually provided to the front end of the business for new customer acquisition or customer service. This provides an opportunity for the outsourced partners to add value.

CJA: Originating creditors will always have that dual role, whereas the collection agencies and debt purchasers have one purpose, which is to invest their money in developing tools and techniques to collect cash for their clients. Clearly, some of the recent entrants, with newer, more robust platforms, can do a better job of this, but if you are solely focused on one aspect, then you will get a better return on investment.

There is a view that all DCAs take a vanilla approach to collections, however, there are so many specialist placements that you cannot have a single strategy to cover every outcome. Modern debt recovery is so diverse, certainly the larger organisations will invest heavily in technology and process, but there are also smaller, specialist agencies who will have their own niche. Qualco continually look at specialty placements and non-mainstream or traditional customer accounts for a significant proportion of today's portfolios compared to standard collect paths – first, second, tertiary placements and so on.

Everyone has been placing these for years, but when you look at the need to treat the customers fairly and to give them the most appropriate service, that is when you see that you need to have this diverse panel.

GP: A point that was made with regard to discriminating your processes between retaining customers and just collecting is important as well. I tend to see that providers of credit are increasingly trying to retain their customers – everyone is being pushed into it by the FCA, but it also makes huge amounts of commercial sense to walk the tightrope and try to get the customers back on track. The alternative is to call them up, judge them a few times – ensuring that in future they do not want to answer the telephone – then pass them to a DCA. You will always need to challenge your company as to whether your job is to retain customers, or whether it is to hit that arbitrary number that you have been given by management.

SS: One of my big things is that it costs a lot of money to get a customer, even in the fintech world it can cost, for example, anything between £5 and £100 per customer – it is a wide range. So, where you are on that very diverse cost range could dictate your strategy: if you have a great forbearance policy and really help the customer get it right, then that might be the best solution.

GP: Again, you are seeing the whole business model rather than, say, a part of it which is shoved into a corner of a large, hierarchical organisation and is just requested to get as much cash as it can.

CJA: I do not think that we can look at collections or compliance in isolation. We have to assess 'compliant collections', which, to us, is a metric, so, instead of total collections, which is an objective measure of 'collections', it is blended with a subjective measure of how compliant those collections are; in essence you have to look at them together.

AJ: We have a very good internal collections operation, from the start to the end of the collections cycle, but I think that there should always be a role for debt collection agencies. In collections and recoveries, it is really important to continuously challenge your strategies and assumptions. You can do that by pairing up with a debt collection agency. You do not have to ask the DCA to take over the whole journey, but you can ask them to work one part of the journey where they think they can do better.

We run some tests and see what there is to learn. If the DCA turns out to be beneficial, then you have to be open-minded and flexible enough to change your strategy, and monitor them carefully. There has to be a balance between in-house capability and outsourced specialism – you should never make it a point of principal to be 100% one or the other, otherwise you create sacred cows and become blind to innovation and change.

Given the overwhelming feedback that the reduction in size of DCA panels is a reality in the modern era, the group shared their experiences in how easy it has been to do so.

DK: It allows healthy competition, so the successful suppliers receive greater volume, which makes the collection process more viable for them. The management of external-provider relationships is just one part of the associate's day job. The largest part is discussing with customers and suppliers to reach the best outcome for the customer, whilst allowing us to resolve the outstanding debt.

JL: If you have been reducing the size of your panel and one of your remaining agencies has a regulatory issue or decides commercially that they cannot continue, how quickly and easy would it be to bring a replacement agency on board? We have seen clients who would struggle to add an agency within 12 months. We could add one within 24 hours.

DK: A tender process would be required, so we cannot bring another agency onto our panel straight away. I would hope, with all the monitoring work we do with our suppliers, that underperformance would not be a big surprise, as we would have had warning.

Sometimes, we will see a dip in performance, for example after a change of staff, however, due to our monthly reviews, we will pick this up quickly and discuss with the supplier how best to bring the SLA back to its expected level.

SS: It is important to ask how it got to that situation. If you have a DCA that has failed with the FCA, then you need to ask how that has happened.

To close the day, the group was asked what the impacts have been of panel consolidation for DCAs, clients and customers. This is what they had to say:

GP: You would hope that the industry would be driven by the opportunity to do whatever will make them money within the right compliance environment, but there is just no commercial appetite for any risk.

SS: There is the case that all of the DCAs are now FCA regulated. So whereas, years ago, it used to be the case that you would have some good ones and some bad ones, and the bigger, more cautious banks would not go to the smaller agencies because they did not know about their reputations, now everyone has a licence. Everyone is regulated so it is a level playing field. So is there no appetite from the bigger players to try something a bit different, because these smaller DCAs also have that license?

How has reporting and oversight developed post-debt sale?

GP: I think that the world is a rather different place now. Just as, for the DCAs, our hurdle has got higher. The difficult part is not having the right intent and the right culture, it is the fact that the nuances of that decision of 'yes, you are good enough' is actually different between different clients. So all of it makes sense, but it is all slightly divergent and there is quite a lot of overhang associated with not just being compliant and showing that you are. Following the audit processes of individual organisations is, therefore, complex and resource hungry.

And, again, I think that if we can ever come up with a set of common principles across lenders, we would all benefit from that because, when we had conversations like this, we would all be speaking the same language and be able to compare and contrast as we wanted to.

SS: You can be a debt buyer, but you are buying all sorts of debt and you do not have an infinite amount of staff, so people are working different types of debt. So you have that different set of regulations and principles between regulated, unregulated, and public sector. There should be a single set of rules from a debt collector and debt purchaser point of view that should be followed.

CJA: Informally, that is the way that everyone works. If an agency is working regulated and non-regulated debt, then there is no thought that you can do whatever you like with the non-regulated accounts. They know that they have to do it right all the time, because the question will be asked.

> "I WOULD HOPE, WITH ALL THE MONITORING WORK WE DO WITH OUR SUPPLIERS, THAT UNDERPERFORMANCE WOULD NOT BE A BIG SURPRISE"

WHY QUALCO HOSTED THE ROUNDTABLE

"We are keen to have regular touchpoints with originators to understand their pain points in order to continue innovating our proposition. Hosting the roundtable was an important milestone in the development and understanding of our business in the marketplace. In Qualco's position as a master servicer, we are acutely aware of the challenges our clients face and have designed and implemented a suite of solutions accordingly."

"The beauty of our offering is that clients can gain access to as many or as few agencies as they desire, yet only need to have a relationship with one supplier (us). Equally they can choose to maintain direct relationships with their outsourced panel whilst benefitting from the Qualco ExtraCollect platform through which they have real-time access to every customer account and the activity that has taken place, at the touch of a button. In an environment of such focused oversight, this has been a game changer in terms of the value add our platform provides."

"We would like to thank everyone who took time out of their busy schedule to participate. The insight gained will play a significant part in how Qualco shapes its service offering in the short, medium and long-term."

Jan-Michael Lacey, Head of Sales at Qualco UK

QUALCO EXTRACOLLECT & PORTFOLIOMANAGER – AT A GLANCE

Qualco UK is a technology solutions provider specialising in collections and recoveries. It's ExtraCollect platform is relevant to organisations seeking to optimise their panel size, as they can reduce their supplier base to a sole contracting entity – Qualco – yet retain walkthrough rights to Qualco's contracted 27 debt collection agencies.

Through the application of PortfolioManager, Qualco can provide clients with a fully managed outsourced solution including strategy design, partner selection, audit & compliance and performance management. Clients are able to retain the right of veto regarding partner selection if needed.

QUALCO ExtraCollect QUALCO PortfolioManager

The results?

- Reduction in contracted entities – clients contract Qualco which in turn contracts the outsourced partners. Clients have walkthrough rights and complete access to the panel members.
- Higher degree of insight and oversight into partners' activities – through the Client Portal, clients experience unprecedented insight into partners' activities.
- Performance uplift (both in overall collections and speed of collections) – the Qualco ExtraCollect platform has been designed to ensure each account is allocated to the most appropriate partner. Accounts are recycled to the best fit partner once actionable insight is captured. This activity takes place faster than standard placement tools, leading to faster collections.
- Reduction in FTE directly involved in outsourced collections and recoveries – with ExtraCollect, the majority of time consuming activity is managed by Qualco including analysis and segmentation; consolidating management information; invoice reconciliation; file transfer and processing.

You can find out more on ExtraCollect and PortfolioManager online, or contact Jan-Michael Lacey on 01932 213340.

"EVERYONE HAS BEEN PLACING THESE FOR YEARS, BUT WHEN YOU LOOK AT THE NEED TO TREAT THE CUSTOMERS FAIRLY AND TO GIVE THEM THE MOST APPROPRIATE SERVICE, THAT IS WHEN YOU SEE THAT YOU NEED TO HAVE THIS DIVERSE PANEL"

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