

UK Consumer Debt Collection and Debt Purchase: Market Insight Report 2018

Summary

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About this report

What is this report about?

- This report focuses on the UK consumer debt purchase and debt collection markets.
 - Consumer debt collection involves the recovery of money that is owned by individuals to banks, companies or public-sector organisations on behalf of the lender or service provider that issued the invoice.
 - Debt purchase involves buying the actual debts – typically bundles or portfolios of mainly unsecured consumer credit loans; or other consumer receivables from companies such as banks, credit card issuers, utilities or telecoms providers which have billed consumers for having provided a service to them – along with the right to collect them.
- The report quantifies the market and its growth rate while reviewing key factors behind these figures and exploring drivers of growth and profitability.
- The leading debt purchasers and debt collections agencies are profiled, and their performance is compared

What does it contain?

- Quantification of market size and historical growth rates since 2012
- Summary of market trends
- Analysis and profiles of leading debt collection agencies and debt purchasers
- Our forecasts for market and driver growth (2018-22)
- Insights from interviews with a range of industry experts

Who is it intended for?

- Debt collections agencies and debt purchasers, sellers and outsourcers of debt, investors in the industry, banks, analysts, consultants, regulators and other parties with interests in the sector.

What are the sources and methodology?

- This report is based on
 - Publicly available data including company annual reports, websites, press releases and government statistics
 - In-depth analysis of the macroeconomic environment and other relevant market drivers
 - Interviews with a range of senior-level contacts in the market
- Information from these sources has been synthesised and presented clearly and concisely with extensive use of charts and tables to illuminate points and support conclusions.

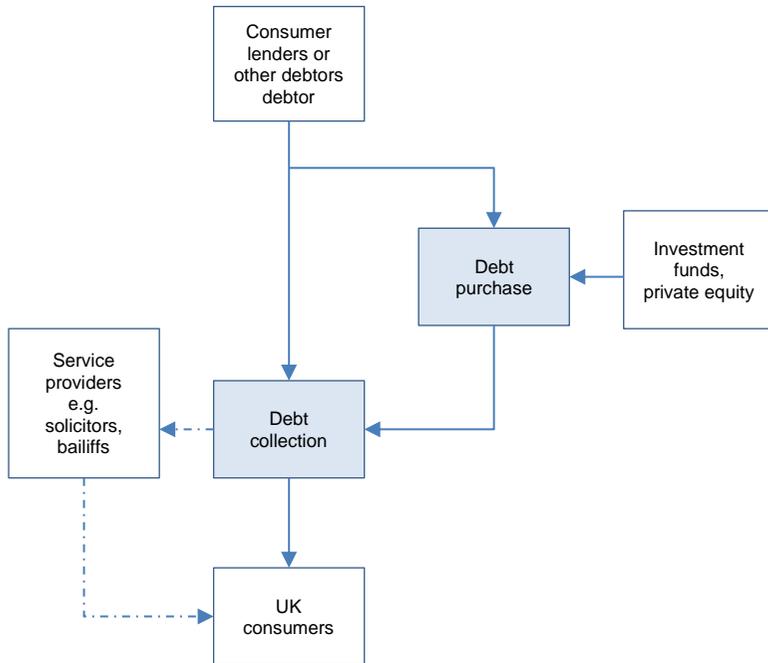
Main changes from our previous report in this area

- Profiles updated to include acquisitions, latest financial results and important company news.
- Analysis and description of the market updated to reflect recent trends such as increasing barriers to entry as a result of greater regulation and shift towards outsourcing / partnership models for debt collection
- Financial information and market drivers updated
- Forecast models rebuilt to reflect new information and changes in the market context
- Comments from interviews included to illustrate key points

Summary

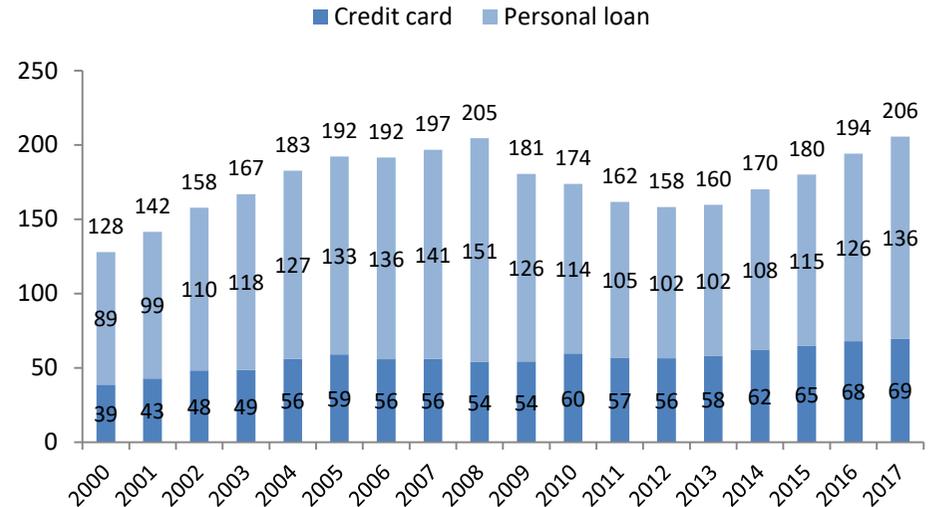
Market context

- The UK debt purchase and debt collection industry has grown by around a third in five years and is close to reaching an annual revenue of £2 billion of per year.
 - The debts relate to bank loans or other consumer debt (the market definition excludes residential first-charge mortgages).
 - The services are most common in the financial sector but are increasingly being used in other areas where there are significant consumer debts, such as telecoms and utilities, as well as in areas of the public sector.
 - Lenders or other creditors have a choice whether to use a collection agency to work on debts on their own balance sheets, or to sell the debt to a firm that will then collect on its own behalf.



- Having been boosted by the increase in consumer borrowing over the last 15 years, the market has more recently shown signs of maturing with lower growth rates.
 - Debt purchasers have grown at a faster rate than debt collection agencies.

UK outstanding unsecured consumer credit / £bn



Source: Bank of England

- Since the FCA assumed responsibility for consumer credit in 2014, regulation has had a significant impact on the market, leading to substantial changes to the industry structure.
 - Debt collection procedures are now tightly regulated requiring significant investment in systems and training.
 - Many firms have left the market and others have consolidated.
 - This has imposed costs on the industry but has been helpful for the larger debt purchase groups in particular, as they have the scale to invest in developing and implementing compliant processes, and can therefore expect to benefit from the increased barriers to entry created by new regulation.

- As the need for investment in collection processes increases, there has been a shift from contingent collection models (where agencies are rewarded based on amounts collected) to longer-term partnership or outsourcing models.

Competitive landscape

- The largest debt collection-only firms include Arvato, Capita (Akinika) and Wescot (acquired by Cabot in November 2017).
 - Although many firms have left the market in recent years, debt collection remains relatively unconcentrated with many small firms collecting mainly commercial debts rather than consumer credit.
- Leading debt purchasers include Cabot, Lowell, Arrow Global, Link, Max Recovery and 1st Credit.
 - Leading players continue to make better use of data to improve their collection success and to enable them to offer higher prices to improve their success in purchasing portfolios.
 - The recent planned floatation of Cabot, which was ultimately cancelled, indicates the strong market interest in the sector but also possibly some confusion regarding operating models and how purchased portfolios and their collections are accounted for.

Outlook

- We expect to see further market growth given the:
 - Number of purchasers backed by private equity or other investment firms in the market
 - Increased incentives for credit providers to remove non-performing loans from their balance sheets due to new accounting and prudential regulation.
 - Greater complexity of consumer credit collections to meet FCA conduct regulation which encourages firms to pass debts to specialists to handle.
- We believe that further market consolidation is still likely, given the synergies available from extending use of more sophisticated collection systems and teams.
- We expect debt collection agencies to continue to shift away from the contingent remuneration model towards longer-term outsourcing

arrangements with rewards based on a combination of performance objectives.

- Our forecast, which analyses historical relationships between key drivers and variables and takes into account views of those in the market, sets out how we expect the market to develop in this context.

About Apex Insight

Company background

- Apex Insight is an independent provider of consulting services, research and analysis.
 - Founded in 2012 by a team with experience of working in strategy consulting and the transaction advisory team of a Big 4 firm
 - Focus on a range of services markets including consumer credit
 - Publish market reports and carry out consulting work to address more specific requirements

Consulting services

Commercial / operational due diligence

- Experience of leading c.150 commercial due diligence reviews on behalf of private equity and corporate acquirers / vendors.
- Work includes assessment of market attractiveness, competitive position, customer relationships, information systems and operational performance.

Custom market analysis

- Research and evaluation of your required market to your desired scope.
- Market quantification, competitor insight and intelligence, analysis of drivers and forecasts

Primary research

- We have deep experience in conducting face-to-face interviews with senior-level decision-makers and managing large-scale surveys, plus even more experience in analysing findings to provide insights and actionable results

Growth strategy

- Outward looking and fact-based: market entry strategies, search and screening programmes for new partners, customers or acquisition targets, benchmarking.

Related research

- UK Car Dealer Point of Sale Finance: Market Insight Report 2017 (August 2017)
- UK High-Cost Short-Term Credit (including Payday Lending): Market Insight Report 2017 (May 2017)
- Point of Sale Finance: UK Market Profile and Forecasts 2017 (January 2017)
- Credit Reference Agency Services: Market Insight Report 2016 (July 2016)
- Rent-to-Own Retail: UK Market Profile and Forecast 2015 (September 2015)
- Home Credit: UK Market Profile and Forecasts 2015 (September 2015)
- Pawnbrokers and High Street Loan Stores: UK market profile and forecast 2015 (August 2015)
- European Peer-to-Peer Lending: Market Insight 2015 (June 2015)

Research subscriptions

- For clients who require access to multiple reports plus report updates and analyst time for further research, presentations, etc.
- Can be tailored to meet individual requirements cost-effectively

About Apex Insight: example consumer credit research and consulting clients



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About the market

Market definitions

Overview

- Consumer debt collection involves the recovery of money that is owned by individuals to banks, companies or public-sector organisations on behalf of the lender or service provider that issued the invoice.
- Debt purchase involves buying the actual debts – typically bundles or portfolios of mainly unsecured consumer credit loans; or other consumer receivables from companies such as banks, credit card issuers, utilities or telecoms providers which have billed consumers for having provided a service to them – along with the right to collect them.
- There is a close connection between debt collection and debt purchase with many organisations having integrated vertically to combine both activities.
 - Most purchasers have some level of debt collection capability to service their own portfolios while retaining control over the process – which is increasingly important to meet the requirements of both the FCA and sellers of debts.
 - Many of the larger debt collection agencies have raised capital to purchase debt portfolios. Acquiring debt portfolios gives collectors greater control of their workload and hence reduces the risk of a sudden drop in activity impacting profitability.
 - Firms that were established as debt purchasers have supplemented their revenues by offering collection services direct to lenders.
- Our market definition excludes the purchase and collection of residential mortgage debt. In line with the structure of the UK's financial services regulatory system, we consider mortgages to be a separate market to consumer credit.
- We also exclude standalone service providers to the debt collection industry, including solicitors and bailiffs; and investors in debt purchase, including investment funds and private equity funds.

Market background

Debt Purchase

- The debt purchase industry first developed on a large scale in the US in the late 1980s and early 1990s. Its use in the UK has grown since the late 1990s and it is now also common practice across Europe.
- Debts which are offered for sale are usually those where the original lender has encountered problems in collecting payments. These are sometimes known as underperforming loans.
- The way in which sales take place has evolved through time.
 - Private negotiation between purchaser and seller was most common in the early stages of the development of the market.
 - As the market developed, sales became more frequent and the number of potential buyers and sellers increased, so more streamlined processes, via sealed bids or internet auctions, became more common.
 - An intermediary, TDX, developed software platforms which facilitate the sale process and support collections. Its systems enabled categorisation of loans and segmentation of portfolios with the objective of matching loans with the party best placed to collect them, and hence likely to offer the best price or deliver the best returns.
 - Larger sellers started to nominate panels of approved purchasers to whom they offer their portfolios. The panel system allows sellers to develop deeper relationships with a smaller number of purchasers and hence maintain greater control over the process following the purchase, with the objective of reducing risk of
 - ...

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