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UK Debt Sale: What does the future hold?

According to the latest survey of the UK debt purchase market, due to be published later this month, debt purchasers reported acquiring portfolios with a face value of £7 billion in 2006, compared to £4 billion in 2005.

The survey, carried out by the Credit Services Association and Debt Buyers and Sellers Group, confirms that the market is continuing to grow rapidly and becoming increasingly sophisticated.

Market growth has largely been driven by the debt purchasers, who have invested heavily in people and systems to create effective models for analysing and accurately pricing portfolios, as well as skilled collections operations.

The size of the market is such that we are now seeing purchasers begin to establish specialist skills to service different market sectors and different types of debt, which is leading to the healthy emergence of a secondary debt sale market place.

Meanwhile, the expertise shown by the purchasers has led to lenders becoming more confident and more proactive in debt sale, not only as a way of capitalising on older written off debt but also as an accepted part of ongoing asset management.

Increasingly sellers demonstrate an appetite for a greater understanding of portfolios prior to sale. This is not just to optimise price, but also to be more responsible when selling portfolios. For example, by segmenting people who are bankrupt or in an IVA they enable purchasers to act more responsibly when determining their recovery strategies.

Given that the intelligent use of data is fundamental to the effective and responsible purchase of debts, there is further evidence of the growing maturity of the UK market in the fact that lenders are also on the verge of ratifying a move to share with debt purchasers the full credit data on customers. Historically, purchasers have only been allowed access to positive, not negative data, which has made it difficult to differentiate 'can't pays' from 'won't pays'.

Debt purchasers are often in a far better position to help someone who is over-indebted than the original lender or a debt collection agency. Or for that matter organisations that claim to be on the side of consumers, such as debt management companies and IVA specialists. For example, purchasers can be more flexible on repayment terms, waive interest or write off part of the balance.

There is no doubt that in many circumstances debt sale offers benefits to both lenders and debtors over traditional debt recovery strategies. More lenders are turning to debt sale and new entrants are anticipated from the utilities and insurance sectors. At the same time finance is still readily available for purchasers to meet this increased demand. .In my opinion the future of the debt sale/purchase market is assured.

James Cornell, CEO, Lowell Group

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