

A close-up photograph of a stack of silver coins. The top coin is clearly visible with the word "TUTAN" embossed on it. Below it, another coin shows "UND". The stack is positioned on the left side of the frame, partially obscured by a large diagonal graphic element made of orange, blue, and dark blue stripes.

# COUNTING THE COST OF DEBT RECOVERY

## Counting the cost of debt recovery

When customers fall into debt, companies face the delicate balancing act of recovering money and ensuring fair outcomes, without putting at risk brand reputation and customer relationships.

This report looks into the current picture of debt recovery processes within UK organisations and the impact they have on customers, both good and bad.

Through consumer research, we have examined the behaviours, attitudes and experiences of 1,500 UK households to paint a true picture of debt recovery. We've looked into:

- Who the nation's debtors are and whether they match preconceptions;
- The reasons behind debt and how these might be mitigated;
- The most effective ways for companies to ensure they recover arrears;
- Which industry sectors most often get it right;
- Which industry sectors most often get it wrong;
- The hidden cost of poor practice in terms of customer relationships and brand reputation.

And whilst it might be assumed that customer debt is simply due to affordability issues, this report highlights that in many cases this is just not the case. Echo Managed Services helps guide companies through the pitfalls of debt recovery and managing customer relationships; championing early intervention and ensuring any money recovered isn't at the expense of lost future revenue.

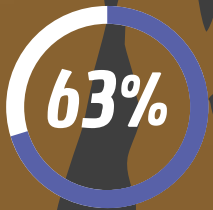
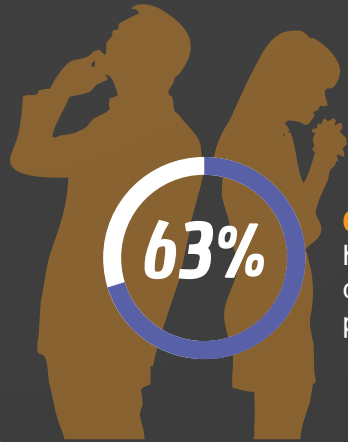
We believe that by understanding each customer and the reasons behind their arrears, and by seeing debt as a natural part of the customer journey, the process can be made more efficient and goodwill maintained.

A handwritten signature in black ink, reading "Monica Mackintosh".

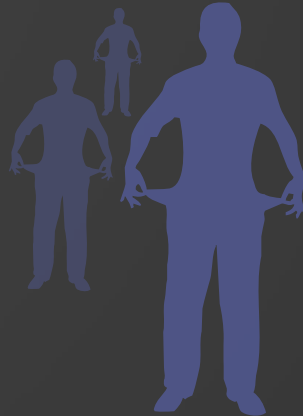
Monica Mackintosh – Customer Services Director



# Key findings



**63% of UK adults** have experienced debt recovery procedures

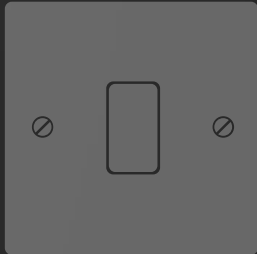


**Almost 1 in 3** people believe it's okay to fall into debt in extreme circumstances, such as when losing a job

**The retail sector** is most likely to use best practice debt collection techniques, according to consumers



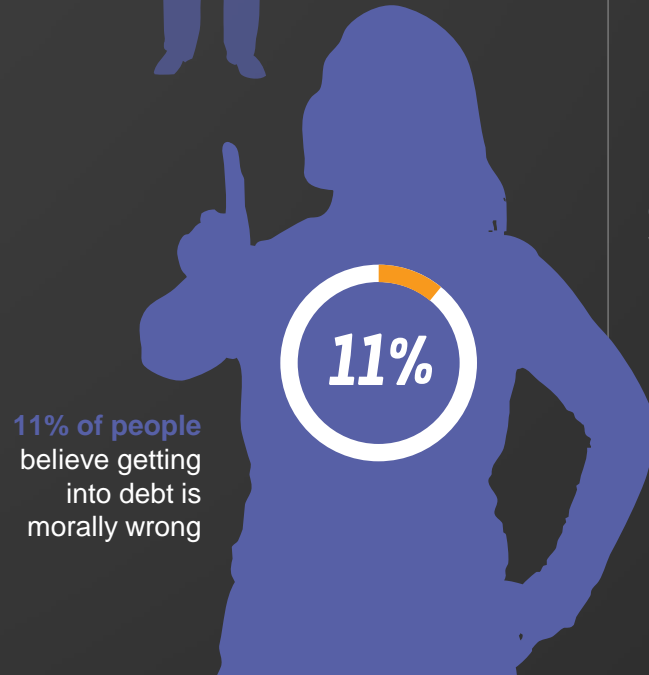
**Over half of people** would switch to another provider if they experienced bad debt collection practices



**Debt reaches all members of society** including those belonging to more affluent groups



WHO



**11% of people** believe getting into debt is morally wrong

**Local authorities and energy companies** are the worst performing sectors



SECTOR

**1 in 3 people** would pay more promptly if they experienced good debt collection practices



OUTCOME

# Everyone has the potential to fall into arrears, regardless of income and demographics

The most striking aspect of debt is that **two thirds of people** have, at one time or another, missed a payment and had reason to experience debt recovery procedures.

What's also surprising is that these percentages don't vary a huge amount between income types or age groups; with the over 65s being the only exception where just 48% have missed a payment.

Therefore, taking a one-size-fits all approach to debt recovery is neither desirable, nor likely to be effective.

When companies call in outstanding money, collections practices are being experienced by a wide range of customers - including those likely to be amongst your most loyal and profitable.

These customers have many different reasons for getting into debt. Therefore, it's important to make efforts to understand each customer and the reasons behind their debt, and respond accordingly in order to create the desired outcomes.

**Customer profiling is vital.** It's important to know the make up of your customers and ensure agents are trained to adapt and tailor their approach based on this information.



| Split by age                               | 18-24 | 25-34 | 35-44 | 45-54 | 55-64 | 65 and over |
|--|-------|-------|-------|-------|-------|-------------|
| I have missed a payment / paid a bill late | 63%   | 67%   | 65%   | 66%   | 62%   | 48%         |

| Split by income                            | Less than £10,000 | £10,000 - £19,999 | £20,000 - £39,999 | More than £40,000 |
|--|-------------------|-------------------|-------------------|-------------------|
| I have missed a payment / paid a bill late | 55%               | 67%               | 59%               | 62%               |



## The socio-economic spread of debt

| Acorn Classification    | Description  | % of 60-day plus Debtors |
|-------------------------|--|--------------------------|
| Affluent Achievers      | These are some of the most financially successful people in the UK. They live in wealthy, high status rural, semi-rural and suburban areas of the country.   | 6.1%                     |
| Rising Prosperity       | These are generally younger, well educated, and mostly prosperous people living in our major towns and cities. Most are singles or couples, some yet to start a family, others with younger children. Often these are highly educated younger professionals moving up the career ladder.   | 6.8%                     |
| Comfortable Communities | This category contains much of middle-of-the-road Britain, whether in the suburbs, smaller towns or the countryside. All life-stages are represented in this category. Many areas have mostly stable families and empty nesters, especially in suburban or semi-rural locations.   | 18.5%                    |
| Financially Stretched   | This category contains a mix of traditional areas of Britain. Housing is often terraced or semi-detached, a mix of lower value owner occupied housing and homes rented from the council or housing associations, including social housing developments specifically for the elderly. Incomes tend to be well below average. Although some have reasonably well paid jobs more people are in lower paid administrative, clerical, semi-skilled and manual jobs. | 15.5%                    |
| Urban Adversity         | This category contains the most deprived areas of large and small towns and cities across the UK. Household incomes are low, nearly always below the national average. The level of people having difficulties with debt or having been refused credit approaches double the national average. The numbers claiming Jobseeker's Allowance and other benefits is well above the national average.   | 52.7%                    |
| Unclassified            |  | 0.5%                     |

To test the socio-economic spread of debt, we used our own data to carry out further research into the range of people with payments that are over 60 days late. The findings reveal that debt is not an issue isolated only to those who are less financially affluent. In fact, it often reaches the more affluent parts of society in significant numbers. Just because a household has a higher income does not mean that they are not living above their means, that they forgot to pay or that they have other reasons that have led them to miss a payment.

**Detailed customer profiling enables the right solution to be aligned to each individual customer. For example, the frequency and dates of a repayment plan could be aligned with a customer's benefit payments or monthly salary.**

# Most customers feel guilty about late payments

It would be wrong to assume that the people who owe your business money simply don't care about making their payments on time.

In fact, evidence suggests that – if they have consciously missed a payment – many will have done everything in their power to make that payment (48%).

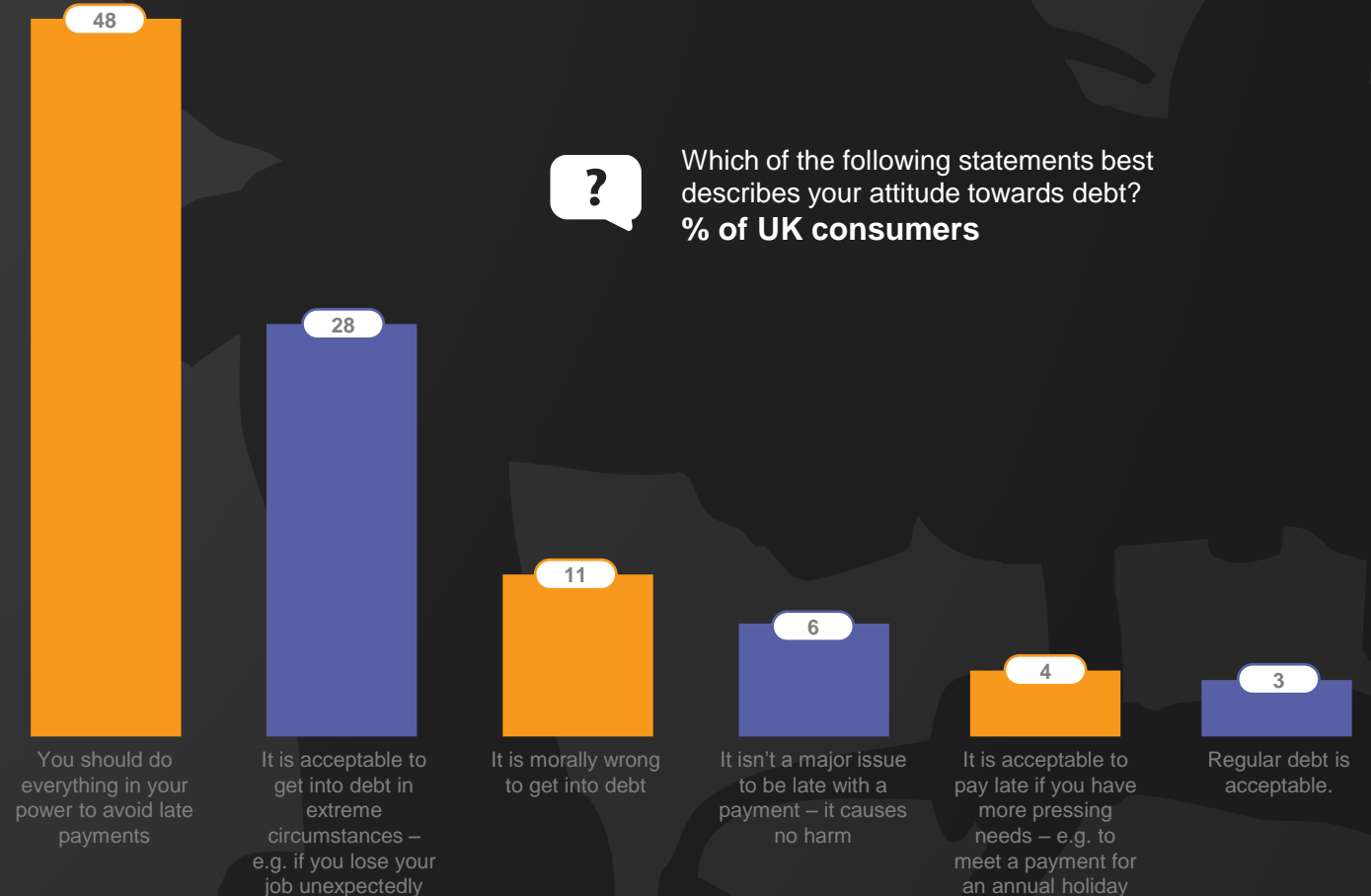
More than one in ten (11%) feel that they have done something morally wrong by not paying on time.

Only a small minority believe that it is acceptable to run up regular arrears (3%) or divert limited resources to pay for treats such as an annual holiday (4%).

As a result, the tone of debt recovery – especially in the first instance – needs to be very carefully judged. Attempts to shame or embarrass customers into payment may be hard to digest for those who have already spent a great deal of time worrying about their bill.

A more appropriate approach is to try and understand their reasons for non-payment – judged in the context of their previous payment history – and look for ways to help them through their current circumstances. Using early indicators can also help companies to act sooner before debt issues actually occur.

Tougher sanctions must be held back for the small minority of problem customers that are likely to be mixed in with the rest.



# The epidemic of time-poor debt

The most effective way to bring down the number of customers in arrears is to tackle the epidemic of time-poor debt. Forgetfulness is by far the biggest reason for arrears – with 1.4 times more people falling into this category than those without the means to pay.

Therefore, regular reminders and soft multi-channel communications before bill issue are important, as is making the process of paying as easy as possible (often through a range of options – e.g. regular direct debits or online payment tools).

## Keeping lines of communication open

Finding ways to make payments part of a regular dialogue with customers is advantageous. This is especially the case where a bill may be higher than the usual amount, giving customers the chance to make the necessary adjustments or alert you to the fact that they may have problems paying.

## Protest debt

There is also a clear pattern of protest debt, attributable to issues such as inaccurate billing, confusing charges or poor service. These are issues within a company’s control, which if resolved, can have an immediate positive impact on the number of customers in arrears.

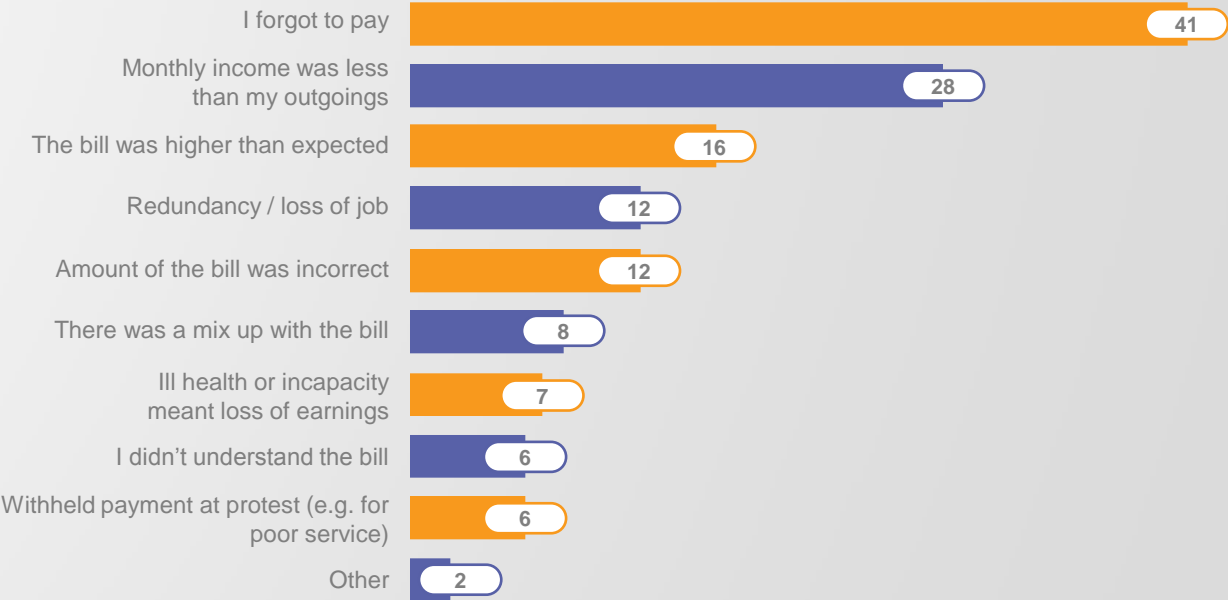
## ‘Richer’ households are a problem area

According to the research, the problems associated with forgetful and protest debt are most likely to occur in higher income households, highlighting that lacking the means to pay is not the only cause of debt.

But, it’s also worth acknowledging that the expectations of higher income groups could well be different to those of lower income groups. They might be less tolerant of poor customer service, or think that forgetting to pay won’t lead to debt collection procedures, for example.



The reasons why your household’s payments have been late  
**% of UK consumers**



| Key reasons split by income groups                  | Less than £10,000 | £10,000 - £19,999 | £20,000 - £39,999 | More than £40,000 |
|---|-------------------|-------------------|-------------------|-------------------|
| Monthly income was less than my outgoings           | 34%               | 31%               | 27%               | 24%               |
| Withheld payment at protest (e.g. for poor service) | 1%                | 6%                | 7%                | 9%                |
| The bill was higher than expected                   | 19%               | 19%               | 14%               | 11%               |
| I forgot to pay                                     | 28%               | 37%               | 42%               | 48%               |

## Solving arrears – the importance of a flexible approach

Our research found that almost half of all debt is cleared immediately, as soon as people are reminded to pay. However, for those instances that require further communication, it seems that a variety of methods need to be deployed to engage customers effectively.

While the majority of people say they will react best to a telephone call or letter, almost a quarter (24%) say they prefer either email or SMS, especially if these link directly to an online payment portal.

Therefore it's both important to offer a range of communication channels and to also look at customer profiles in order to deploy the best techniques. For example, dialling a customer who works full time during office hours may simply end up agitating them – text or email may be a better approach.

## Doorstep visits – getting them right

When it comes to doorstep visits, we carried out further analysis of 38,000 attempted collections to better understand this approach. Of those people visited, half either made immediate payment (either in full or in part) or agreed a payment plan. A quarter were assessed to be in circumstances of vulnerability and therefore in need of further support and assistance, highlighting that a great deal of care needs to be taken when undertaking such collections.

Door step collection is often used as a last resort. However, it can be extremely effective earlier in the process in terms of customer engagement and affordability discussions. These face-to-face visits also provide an effective opportunity to deliver other customer-facing services at the same time, such as meter reads.



Which type of communication is most likely to lead to payment?





# Who's getting it right when it comes to best practice?

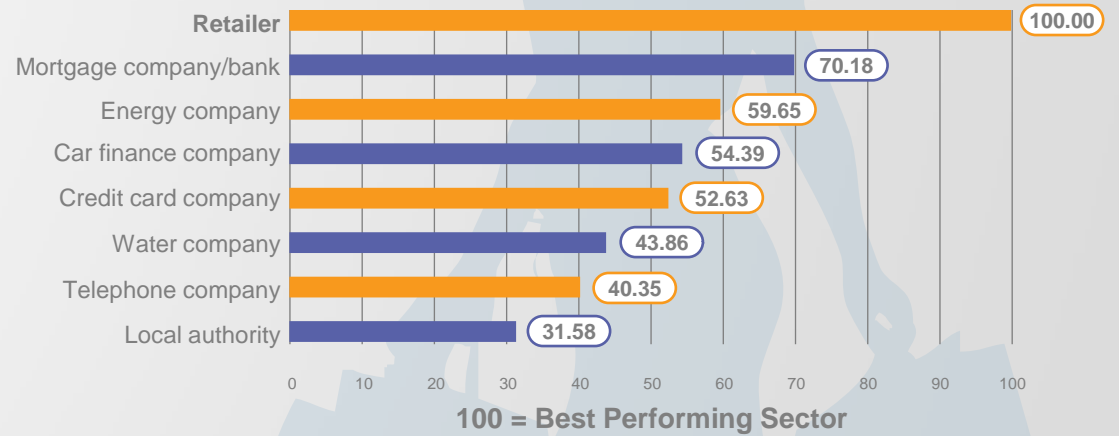
Of all the sectors included in our study, retailers were found to be the most likely to deploy best practice techniques in their debt recovery procedures.

They were the most likely to approach customers with friendly and helpful staff, as well as providing easy payment options for people struggling to pay their bills.

They were also most likely to make their charges clear and have all the relevant account information to hand when speaking to customers.

And whilst over two thirds of customers felt that they received a friendly and helpful approach from companies, what's important is to ensure that agents are equipped with the right tools and information. This could include what the charges are, where they've come from and all relevant account information to ensure the customer doesn't have to repeat information and the conversation is as efficient as possible.

## Best practice – sector index



## Best practice techniques experienced - % of UK consumers



# Worst practice – who takes a poor approach?

Three sectors – energy companies, local authorities and credit card companies – were all ranked very closely for their poor approach to debt recovery.

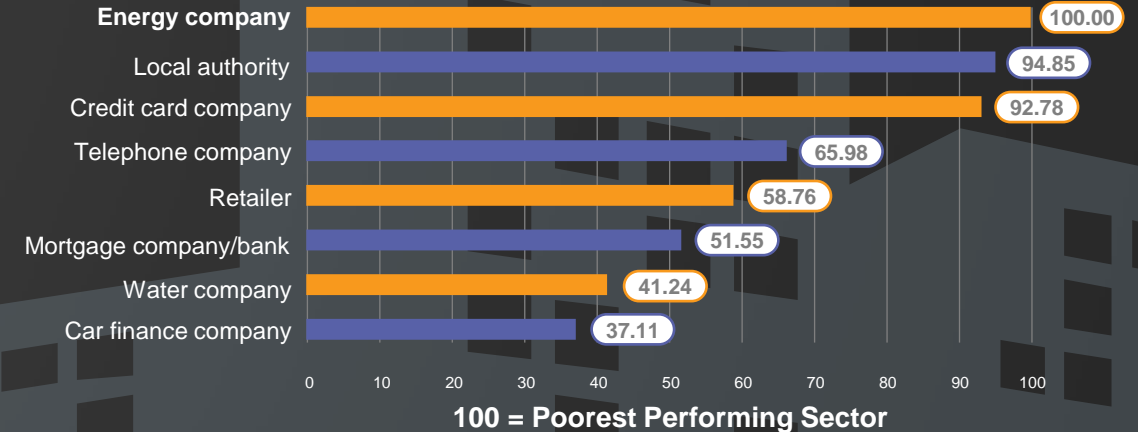
The most common poor practice was cited as inaccurate billing – aggravating the issue of protest debt. Reliable and accurate billing is a simple way to reduce the number of customers who enter the debt cycle and to avoid repeat contacts.

Given the earlier findings around the reasons for debt and attitudes of the majority of customers, it's also worrying to see high reported prevalence of overly aggressive debt recovery and people being made to feel embarrassed about their missed payment.

The research also highlights the importance of making it easy to pay or, in the case where payment isn't possible, to offer a realistic payment plan that acknowledges an individual's particular circumstances.

Although collections tactics may lead to a customer agreeing to a payment plan, it's important to recognise that if it's unrealistic it won't be sustainable in the long term and could create repeat contacts and a bigger future issue.

## Worst practice – sector index



## Worst practice techniques experienced - % of UK customers



## The hidden cost of poor practice

While the aim of debt recovery is to improve cash flow in an efficient manner, there is a clear financial downside to many of the poor practices being employed.

Customers on the receiving end of poor debt recovery procedures are more likely to switch provider and recount details of their poor experience to others.

There is also evidence that poor practice hampers the recovery of the debt in question, with a significant proportion of customers saying that they would delay payment further to punish their company (18%).

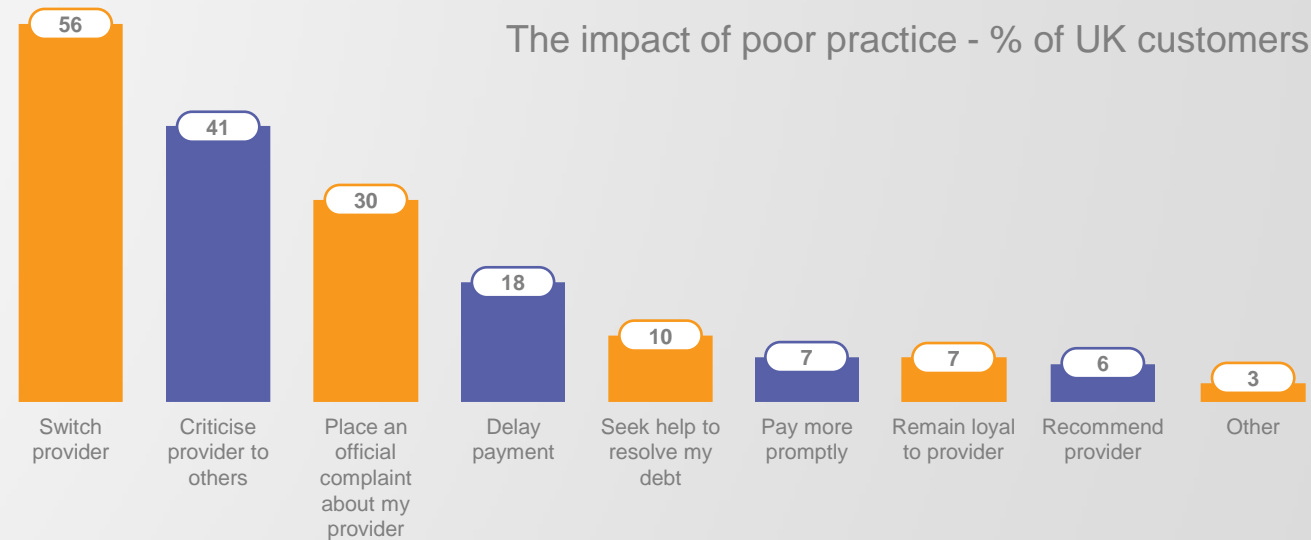
## The benefits of getting debt recovery right

In contrast, customers are very appreciative of the help and understanding shown by companies that follow debt recovery best practices.

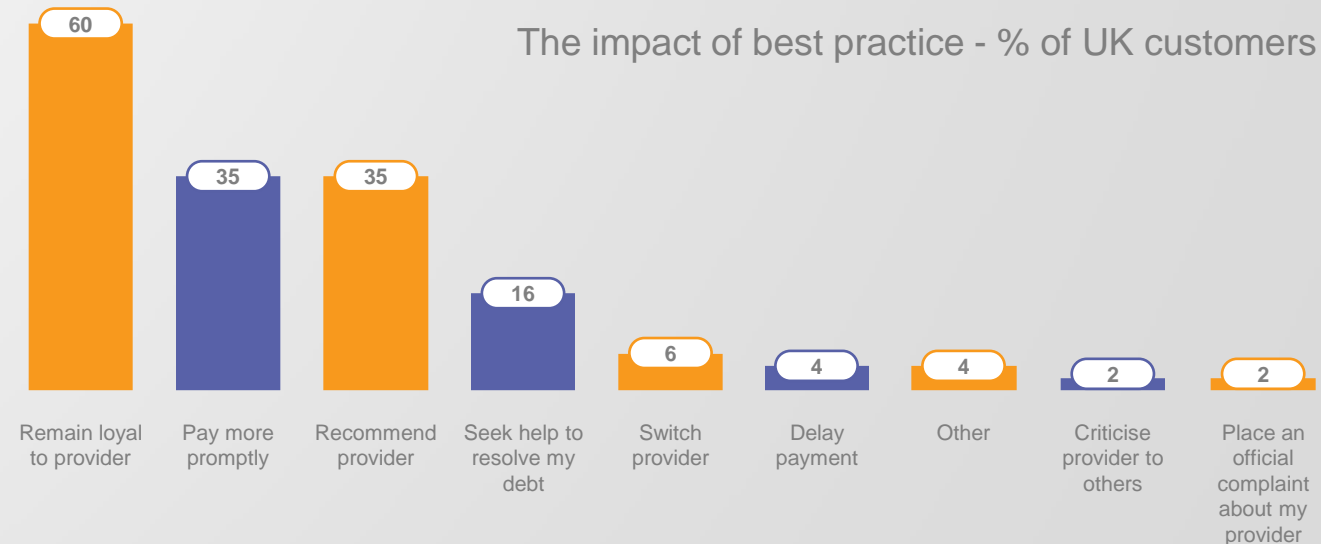
They are more likely to remain loyal and recommend the company to others. They are also much more likely to pay more promptly, as gratitude for help during a more difficult period in their life.

**Remember, a customer's debt may just be a temporary blip. Companies must balance the long term lifetime value of a customer against a short term payment gain that may lead to the customer choosing to switch supplier.**

The impact of poor practice - % of UK customers



The impact of best practice - % of UK customers



## When getting into debt with an everyday service provider, did you feel that throughout the debt recovery process they valued you as a customer?

To complete our research, we asked consumers for their thoughts around getting into debt with everyday service providers, and how they found the company's approach to debt. **50% of valid respondents said they hadn't felt valued, 34% said they did, while the remainder weren't sure.** Below are some extracts of comments which arose time and time again:

They hassled and were very aggressive, which was especially bad as the discrepancy was caused by them misreading meters.

I felt belittled.

Although friendly enough I felt that I was classed as 2nd class and maybe uneducated.

They were keen to help as I had been a customer for many years.

They were more understanding than I thought they were going to be.

They were not interested in my circumstances, they just wanted their money.

All they were interested in was their money.

I missed one payment and had no history of debt this was obviously an oversight, yet I got all the standard letters and the charges were ridiculous.

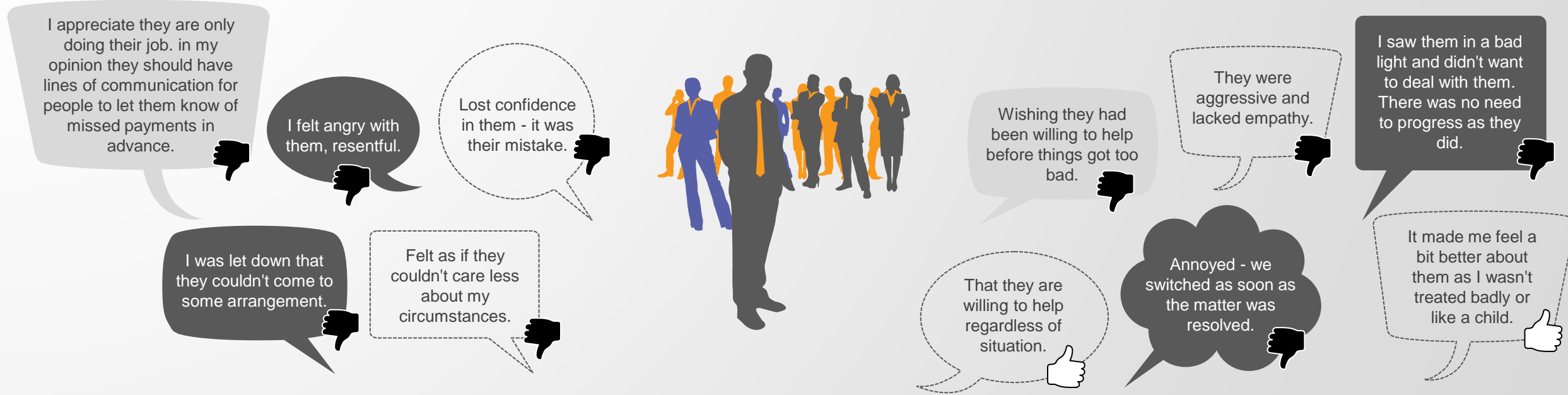
They were threatening and generally abused my health.

My general experience is that they just want the debt paid. Being a valued customer does not come into it.

Consumers are experiencing a variety of approaches, leading them to develop strong emotional feelings – both good and bad – towards everyday service providers. Whilst it's positive that a third of comments given were favourable, half the responses to this question were extremely negative. Whilst it's important to get arrears settled - identifying circumstances of vulnerability, listening in an empathetic way and placing customers issues and concerns first, can prove in our experience to be far more effective in the long term.

## How did the debt recovery process make you feel about your service provider?

Finally, we asked respondents to sum up their feelings on the debt recovery processes they've experienced and how it made them feel about their service provider. Common themes included feeling let down, feeling that the company didn't take the time to understand their situation and wishing companies had stepped in earlier to help before the situation got so bad.



As with every step in the customer journey, during debt collection customers are likely to form an opinion about a company based on their experiences. It's clear from respondents' comments that proactive communication and empathetic and understanding advisors are highly valued. In addition, through early engagement and by avoiding billing and contact errors, companies can prevent unnecessary and avoidable negativity.



## Summary

Our research has found that individuals from all walks of life, income types and ages fall into debt at some point and that they have a range of reasons why they have missed a payment, many of which can't be attributed simply to lacking the funds to pay - such as forgetfulness, inaccurate billing and protest debt. Therefore, a one-size fits all approach to debt collection is not fair, nor effective; a tailored approach to collections is what is required.

One thing that can't be forgotten is the importance of transparent and regular communication, and how if done correctly, this can lead to both debt avoidance and fairer outcomes in the first instance. Early intervention and regular reminders have a key role to play in mitigating some of the reasons behind debt; but only where customers are receptive.

In addition, offering customers in arrears multiple channels of communication is essential. Preferred contact channels differ hugely between customers, so to effectively engage customers and achieve the best outcomes companies should offer channel choice.

The importance of getting collections right is something which simply cannot be ignored. Increased loyalty, repeat business, and more prompt payment can be expected if done properly. If not, companies face losing customers, suffering reputational damage and customer disengagement.

Ultimately, debt is always going to present businesses with a challenge. But this doesn't mean they must sacrifice their reputation and customer relationships as a result. Understanding each customer's circumstances, implementing tailored solutions, adopting a customer service mind set and keeping lines of communication open can result in both a reduction of bad debt and satisfied customers.

**Debt is just another part of the customer journey - and it's essential that organisations recognise this.**

# Key Lessons

Don't make assumptions around **customer circumstances** and who is most likely to fall into debt and why; over **60% of people** have been in arrears at one point or another.

Fully understand each customer and **tailor debt collection processes in-line with customer circumstances**, the reasons behind their debt and how receptive they are to different payment options.

Offer customers the **choice of multiple communication channels** and keep these lines open to ensure customers are presented with every convenient opportunity to engage and to reduce instances of customers forgetting to pay.

Ensure agents have a full understanding of identifying **customer vulnerability** and can signpost to in-house solutions and free, impartial money advice for those who need it.

Be **open and transparent** with customers – explain charges and offer all available payment options and payment frequencies; ensure you deliver **fair outcomes**.

# Key Lessons

Agents are your greatest asset in connecting with and engaging customers; ensure they have a **customer service mind set** alongside debt management skills.

**Act sooner to mitigate reasons behind debt** such as forgetfulness, inaccurate billing and protest debt. Engage customers earlier and use indicators to predict payment behaviour.

When evaluating success, think about **longer term KPIs** rather than simply the short term benefit of high collection rates.

Perhaps most importantly, realise that **debt is simply another part of the customer journey**, and if handled effectively can be rectified in a positive manner without damaging company reputation and valued customer relationships.

To discuss this report further or to find out more about our debt recovery services, get in touch:

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