Tech Market View
UK DEPTH GLOBAL TRENDS

ANALYST*VIEWS*

Debt Management - a holistic approach becomes a priority

Financial Services*Views*
October 2022

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Introduction

Since recovering from the impact of the US sub-prime mortgage scandal and the ensuing "credit crunch" at the start of the last decade, the UK economy has enjoyed a sustained period of growth. However, despite Britain's apparent recent prosperity, the financial well-being of the UK population has become increasingly polarised, with the distribution of wealth ever more weighted in favour of a relatively small number.

The recent, prolonged low-interest environment has given rise to significant levels of borrowing, across the whole of society. This trend has in part been fuelled by the growing number of buy-to-let investors, second homeowners and the popularity of Buy Now Pay Later (BNPL) offerings.

As growth slows and the threat of recession rises, the UK is once again facing the joint challenges of high inflation and rising interest rates. The economic downturn heralds a difficult time for many businesses and individuals, further exacerbated by soaring energy costs and the high level of indebtedness in society.

BNPL

The BNPL model is great for retailers and can help consumers to spread the cost of vital purchases. However, coupled with its rapid rise in popularity, concerns have arisen around responsible lending and the impact of BNPL on levels of personal debt.

The growth of BNPL has been something of a phenomenon over the last 24 months. As more shoppers turned to online commerce during the pandemic, BNPL became one of the fastest growing areas of the financial services sector.

As well as the BNPL pioneers such as Klarna and Zilch, that have now achieved "Unicorn" status, there have been numerous rival offerings coming to market, seeking to capitalise on the opportunity. Recent UK examples include the likes of Butter, DivideBuy and Kandoo.

Leading core banking specialist, Temenos, recently launched a cloud-based BNPL service utilising Explainable AI (XAI) to monitor affordability and promote responsible lending. During the pilot of this service, one major client, secured 22m loan applications within just 9 months. The new BNPL service became the fastest growing product launch in the company's history.

In 2021, the £21bn acquisition of Australian BNPL provider, AfterPay, by digital payments platform, Square, highlighted the perceived value of this market. Square's founder, Jack Dorsey (one of the driving forces behind Twitter) no doubt recognised the value of adding a convenient credit facility to his core payments offering.

Responsible Lending

Regardless of the growth of ethical approaches across the financial services ecosystem and greater focus on ethical lending, the UK looks set to experience rising levels of financial hardship. Coupled with a downturn in the credit cycle, further increases in the level of personal debt and the numbers of payment defaults are almost inevitable.

In considering the financial implications it is perhaps easy to forget the other impacts that the pandemic and lockdown(s) have had. Redundancy, bereavement, deteriorating health and social isolation have all contributed to a decline in the mental health of some individuals. Unfortunately, these problems are also likely to be coupled with financial hardship.

However, one positive consequence of the pandemic, appears to be a reinvigorated attitude towards corporate and social responsibility (CSR). This is true both within the technology sector and the wider corporate community, where the importance of health and wellbeing is increasingly being recognised.

Just as technology innovation and public attitudes have contributed to changes elsewhere in society, modern approaches to default mitigation have also moved on since the last recession. Against this backdrop, there are a number of interesting propositions that are paying more than lip-service to the guidance of bodies such as the FCA.

Cost of living crisis

In the UK, financial wellbeing is an increasing area of concern both for the public and policy makers. According to the Money & Pensions Service, around twenty million people are struggling to manage their finances on a daily basis, whilst eleven and a half million people possess less than £100 in savings. There are reportedly around nine million people in the UK who have had to borrow to buy food or to pay household bills, whilst the number of those seeking debt advice now exceeds five million.

The "cost of living" crisis, as the situation has become widely known, has seen many UK households hit hard by steeply rising prices in respect of many everyday foodstuffs, domestic energy costs and fuel prices at the pumps. The scale and severity of this issue, coupled with widespread recognition of the external factors contributing to the problem, has promoted recognition that debtors and potential defaulters are likely to be entirely blameless for the difficult financial situation they find themselves in.

The Financial Conduct Authority (FCA) has indicated that around half of the UK population displays one or more characteristics of vulnerability. Furthermore, the regulator has counselled that lending organisations must provide borrowers with access to the appropriate support as financial difficulties increase in the wider economy.

A new approach

The cost of living crisis and changing attitudes to indebtedness have given rise to new approaches in response to the problem. Established vendors operating in the debt management space along with a number of innovative startups have developed new propositions with the needs of the consumer in mind.

Founded in 2021, UK fintech, Ophelos, recently raised £5m to help promote its fledgling debt collection offering. Ophelos uses AI and machine learning technology to support an approach to default resolution that is a departure from many of the traditional methods currently used. Ophelos assesses consumer vulnerability and facilitates manageable, personalised instalment plans that are based on the financial wellbeing of debtors. In May 2022, Ophelos was selected by fellow fintech Yonder to provide debt resolution services to the startup's credit card customers.

Another interesting proposition that has recently come to market is a comprehensive debt management service from IT Services specialist Sopra Steria. The service blends technology and business process to offer a holistic approach. The Sopra Steria approach incorporates the use of data analytics and automation, whilst also drawing on the company's extensive expertise as a specialist in operational improvement.

Sopra Steria has developed a debt management process that not only recognises an organisation's recovery needs but also supports the debtor's requirements at each stage of the lifecycle. The approach is modular and includes five key elements: Enhanced Analytics; Strategic Advice and Guidance; Early-Stage Debt Recovery; Later Stage Debt Recovery and Litigation and Enforcement.

The Sopra Steria Response

Crucially, Sopra Steria's debt management service firmly positions the debtor as a customer. Even for those in default, the company's approach is underpinned by a recognition of the fact that, each individual in debt is in need of, and entitled to, customer support.

Using predictive analytics, Sopra Steria is able to identify changes in behaviour that can prove to be effective pre-cursors to default. Thus, by identifying customers in this way, before they fall behind on their payments, intervention and support have been proven to have a far greater likelihood of achieving a positive outcome. This may mean maintaining an active dialogue with the customer during their time of hardship, or in other cases, successfully restoring regular payments.

Sopra Steria's Head of Private Sector, Craig Wilson, is a key sponsor of the new debt management service and is keen to emphasise the ethical nature of the company's approach. A former COO at HSBC, Wilson believes that it is important to take a different approach to the way in which lending institutions have traditionally pursued debtors.

Sopra Steria also believes that there is a significant need for UK government departments to modernise the current approach to debt management. With the FCA's requirements around Treating Customers Fairly (TCF) in mind, the Sopra Steria debt management service is tuned to identify and support vulnerable customers to ensure better outcomes for all stakeholders in the process.

The debt management services of Sopra Steria have been chosen as part of the UK government's 'Debt Resolution Services' framework. As a result, the company is well positioned to influence the debt recovery rates of government departments whilst also helping to improve customer outcomes. With an increased focus on early-stage debt, the Sopra Steria approach supports the most vulnerable and offers a response to the debt cycle.

Support for vulnerable customers

In addition to its core debt management proposition, one of the ways that Sopra Steria is also endeavouring to support vulnerable people with debt is via its data-driven tool, Support Point. Developed in partnership with the University of Edinburgh, the platform helps users to identify if they are likely to be in a vulnerable situation whether in respect to work, money, health or wellbeing.

Customers are taken through a series of questions about their personal circumstances which helps to identify a range of potential support options. These include the services of government agencies, charities and community groups. It also signposts users to support options which can build longer term financial, health and emotional resilience.

Support Point has been specifically designed with a focus on treating customers fairly. It is equally applicable to the public and the private sector and enables organisations to assess and protect the mental and financial wellbeing of their customers.

The benefits of this innovative approach to debt management are broad. By identifying vulnerabilities early, and creating bespoke responses to debtor situations, Sopra Steria can deliver better debt recovery in a fair and affordable way. The customer is actively supported throughout ensuring fair treatment based on true affordability. Using data from multiple sources will create a true picture of the debtor's situation, accurately informing decisions and delivering fair outcomes.

Conclusion

A holistic approach, such as that advocated by Sopra Steria, offers a new perspective on the management, recovery and mitigation of debt. Whilst there are, of course, clear distinctions to be made between "those that can't pay" and "those that won't pay" in both instances, a blend of analytics, communication, education, and enforcement appears to have obvious benefits for all stakeholders.

About the Author

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Research Director, Jon Davies, is responsible for TechMarketView's Financial Services research programme. Jon has more than 35 years' experience within the financial services and technology industries, and an in-depth knowledge of insurance, retail banking and global IT.

Prior to joining TechMarketView, Jon had an 18-year career with DXC Technology where he spent many years leading the global Insurance, Banking and Capital Markets research teams, supporting sales, strategy, offerings development and pricing. Prior to this, Jon held a variety of research and business intelligence roles at a major North American insurer.

Jon is an experienced writer and is passionate about turning insights into action. As the overarching themes of innovation and digital transformation loom large over the global financial services industry, Jon will help clients make sense of the disruptive forces impacting their businesses.