

Press Release



From: Euristix
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Subject: Spending Cuts Herald Fresh Problems for Debt Collectors

Spending Cuts Herald Fresh Problems for Debt Collectors

The latest budget announcements from the coalition government could trigger fresh difficulties for the debt collection industry, with revenues are expected to fall by more than 14%.

The recent economic downturn has underlined just how dependent the collections industry is on the prevailing economic conditions. As the UK's non-prime consumers found their access to credit cut

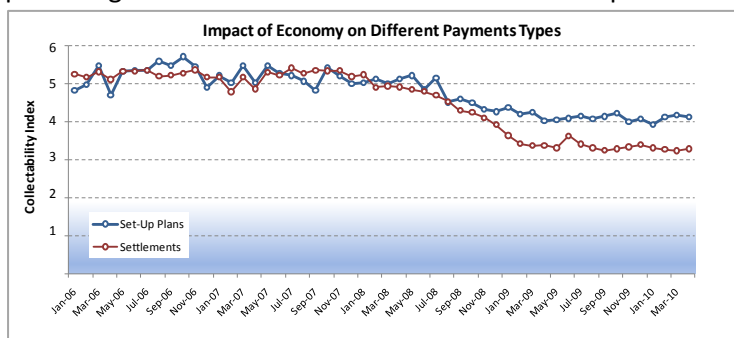


Figure 1 - A collectability index based on Euristix internal economic models shows the severe impact of the economic downturn on the debt collection sector

off, so too did their ability to fund full and final settlements. Later as unemployment rose and consumer confidence fell, payment plans suffered from higher default rates and reducing instalments. The net impact of these changes for many debt collectors was a reduction in revenue in the region of 25-30%, with the largest drops driven by

reduced settlement activity. The collections industry struggled under such an unprecedented slump, with reduced revenues stressing business models, straining investor confidence and all but halting activity in the debt purchase market.

Since mid-2009 some element of calm has returned to the collections sector with collections levels stabilising, albeit at a reduced level. Returning investor confidence, more palatable debt prices and the end of the recession have prompted many to begin planning for brighter times ahead. However, Euristix research shows that the recently announced government initiatives to curb spending have the potential to derail this nascent recovery. The very real likelihood of public sector job cuts has once more raised the spectre of growing unemployment. The 600,000 proposed long term job losses relate to a 2% rise in the unemployment rate, before considering the indirect impact of these cuts. At the same time a review of the benefits system will undoubtedly leave many debtors facing a reduction in income.

By using models which calculate the changing affordability and liquidity circumstances of individual debtors, Euristix have mapped the impacts of these changes onto collections performance. Unlike

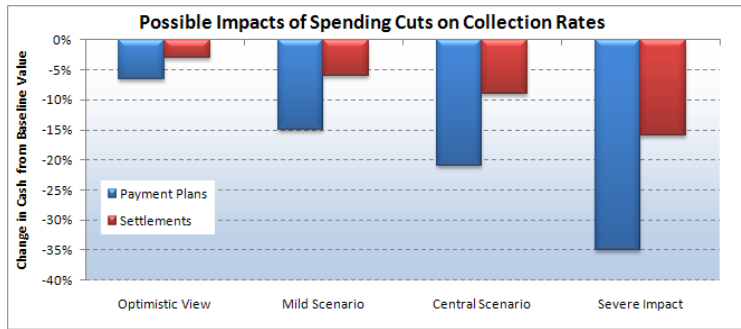


Figure 2 - Various scenarios shows the potential for severe impacts on collections resulting from government measures to cut spending

the impact of the credit crunch, in which reduced consumer liquidity triggered a collapse in settlements, the mechanism here is a reduction in monthly affordability. As such, the primary impact will be on payment plans, with even a relatively mild growth in unemployment and reduction in benefits triggering a fall of 15% in

plan revenues. Settlement payments perform better in this mild scenario, although they still exhibit a 6% drop. In reality, Euristix expects the impacts to be more severe than this mild scenario as the economy reacts badly to rising unemployment and benefit cuts. For a standard debt collector we anticipate a possible fall in revenue of just less than 15%, driven by a drop of 21% in plan payments and 9% in settlements.

As the debt collection industry climbs slowly back to its feet, there is a very real chance that the latest government initiatives could inadvertently pull the rug back out from under it. With the spending cuts reducing the affordability of a significant proportion of debtors, collectors need to be ready for tough times ahead. As much as Euristix hate to be the bearers of bad news, there is a very real chance that the light at the end of the tunnel is indeed the headlamp of an oncoming train!

Paul.matthews@euristix.com



For more details about Euristix and our services, please contact Frederic Nze:
 t: +44 20 7043 4700
 e: frederic.nze@euristix.com

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