

## Treating Customers Fairly – recovering debts

Of the four stages of the product lifecycle which the FSA ask firms to examine as part of their approach to TCF, the treatment of customers who fall behind with repayment of loans or mortgages falls firmly into the after sales care stage. This article focuses upon the content of the process that firms adopt to handle situations where customers cannot meet their obligations.

Lenders will have a programme which is followed to recover debt in an automated way. If they are to be treated fairly then one model is unlikely to fit all customers.

### The debt recovery programme

If you tested your process against the following alternative goals which would be uppermost, are you looking for short term recovery or long term gain?

- To recover the payment and ensure no future lapses
- To recover the payment and build a long term relationship

The reasons why a payment has not been met are many and varied. It is wise to do some research into the background of the client and review the circumstances of the original loan, the information about the customer obtained at that time and his/her pattern of financial spending if this is available.

Consider the options you have to help customers in financial difficulty and if there are solutions that lie outside your product range consider whether the provision of more specialist services such as debt counselling, sub prime lending, alternative mortgage products, could be provided by linking up with specialist providers of good repute. The skills and attitudes of the people dealing with customers requires a similar level of investment and care as that for lending advisers, it is a highly skilled job to discern the nature of the customer and help to reach a satisfactory solution.

### On first contact

The first interaction with a customer who is in arrears will dictate the tenor of the relationship going forward and the firm has the opportunity at this stage to take a position which not only will be seen as fair but also will create a strong and long lasting relationship in the future.

This first contact should, and usually does, allow for a mistake to have been made which has caused the non-payment. In a world of stolen identities, credit card fraud and less than perfect accounting in the event of a change of bank accounts, this is a wise move. A good customer can be lost forever by an aggressive and demanding approach at this stage.

If the goal of the process is to build a long-term relationship, the communication will highlight that the lender can help any customer who is in financial difficulty. They should be encouraged to contact the lender as quickly as possible and should be directed to an expert area with properly trained staff that can handle the issue professionally.

### Establishing the scope of the problem

In the event that there is no response to the first communication it is important not to immediately fall into debt recovery mode. It is sensible to speak to contact the customer by any means possible at this stage as communication is key. Failure to respond may mean that the customer is in serious difficulty and cannot see any way that the problem can be resolved. Emotionally, fear is driving behaviour and freeze and flee are frequent reactions.

A full review of past communications and patterns of spending and debt servicing are critical to establishing the likely group into which the customer falls. The following model helps to establish how best to handle the recovery.

## Can't pay

No funds and seriously in debt	No funds and deliberately obstructive
Temporary problem – willingness to pay	Temporary problem – can't be bothered

**Won't pay**

Everyone should be treated fairly and at this stage, if the objective is to build a long-term mutually profitable relationship, the correct categorisation of the customer, with justification, for that decision is key to the future path the lender will take.

Simply ploughing through the standard process is likely to lead to the loss of many customers particularly those that fall into the "Won't pay" category who could become very valuable customers in the future.

The conversation with the customer to establish their position should not be judgemental and while setting out the lenders position clearly will explain the alternatives to move forward. The goal of this contact is to establish the full scope of the customer's financial position and suggest alternative routes to achieve repayment.

Ideally a meeting and completion of a budget customers budget so that a realistic and long-term solution can be found. This stage should have the same standards attached as those for providing advice, that is: -

- A fully understanding of the customers circumstances
- An affordability assessment
- Selection of the most suitable solution to meet their needs.

A full record of this process should be completed and, to ensure that the customer fully understand the nature of the solution agreed, a letter confirming the solution reached and asking for the customers signature to confirm their understanding and agreement should be obtained.

If only it was that easy!

## The can't and won't pay group

No matter how fairly some customers are treated there comes a point in every lenders experience when the customer has used up their entire quotient of fairness and the debt has to be recovered. The "can't and won't category" generally exhaust patience soonest.

Early identification of this group can save considerable time and cost. But how? Targeted questioning can uncover attitudinal issues as well as the level of debt, such as: -

- What are your priorities in terms of expenditure?
- How do you decide what debts to service first?
- If you had funds what would spend money on first?

The answers provide evidence for a course of action, along with the facts of the case, to proceed more quickly to decisive action to enforce the debt.

## **Evidencing TCF**

The FSA has issued a helpful guide to consumers (MA2), which advises customers of the large number of alternatives available if a customer cannot meet mortgage payments. It provides firms with a useful checklist to consider when advising customers of the options open to them.

It is difficult to see how a process that works on a “one size fits all” basis could be justified in evidencing TCF and at each interaction firms should show how they: -

- Took into account individual's circumstances
- Looked at all the options available
- Provided advice on the best solution
- Evidenced that the customer could afford the solution

This whole process is expensive although comparisons between the cost of acquiring customers and the annual profit derived from relationships should be considered when looking at the cost of handling debt recovery in a way designed to retain customers rather than simply recover debt...

## **Future economic implications**

The FSA's Financial Risk Outlook published in January 2006 drew attention to high level of UK household post tax income used to service debt accompanied by increased arrears and mortgage possession actions.

The FSA's figures show that 57% of consumers can meet debts and bills without difficulty although 31% are keeping up although struggling from time to time. Any economic change that substantially increased non-optional commitments could sharply increase the numbers missing payments.

Adjusting the approach to debt recovery in away that keeps customers could be a change that reaps benefits in the long term.

## **Postscript – August 2007**

Today we are seeing the FSA's crystal ball vision come true – TCF will be even more important

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