CREDIT STRATEGY

July 2016

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TWILIGHT ZONE

Is the sun setting on peer-to-peer's competitive threat to high street banks?

July 2016

Marcel Le Gouais
EDITOR

DON'T EXPECT ANSWERS, NOBODY HAS ANY

Extraterrestrial life remained undiscovered, Christ's second coming didn't materialise and England didn't win another major football tournament. But in the past three weeks, everything else happened.

And because everything needed to be dissected to provide meaning for the UK (retail) financial services sector, death by analysis felt like a genuine prospect.

This feeling became more acute when siphoning through 27 Brexit briefings from law firms and research specialists, which touched only briefly on pressures that will mount on consumer household finances in the next two years.

One briefing, from research consultancy IRN Research, estimated that by 2021, if the UK agrees an EEA-style deal with the EU, consumer disposable income will be £42bn less than it would have been had the UK voted to remain. A recent Bank of England report on financial stability touched on the same issue.

The central bank's governor Mark Carney has in fact provided a singular sober voice in the past month. He found himself in the awkward position of assuring the stock market, and indeed the country, that the UK's financial institutions have the tools to withstand volatility.

His measured response came in a period in which the lunatics didn't so much take over the asylum, as set fire to it then flee to get their lives back.

But even Carney's war chest doesn't quite camouflage problems so embarrassingly evident.

An unpalatable truth is that the UK's regulators of various sectors are awaiting any crumb of credible indication from the government on the parameters of negotiations with Brussels. Nobody knows what is and isn't on the table.

Because of this uncertainty, specifics of the UK regulators' collective preparatory plans remain unknown - because there is no wider plan.

When *Credit Strategy* sought information from government departments, it was apparent this vacuum is larger than you'd think. The uncertainty is too macro to prise answers yet on practical consequences for the collections industry, but if minute-by-minute post mortems or Westminster machinery hasn't yet drawn you into a deep sleep, it's worth staying awake to read our summation of industry reaction, from pages 10 to 13.

A big question remains over how to unpick reams of EU legislation, from which parts of the regulatory framework for the financial services, energy and telecoms sectors are derived. As we extricate from these laws, will parliament just replicate them? Any answers in the next two years gratefully received.

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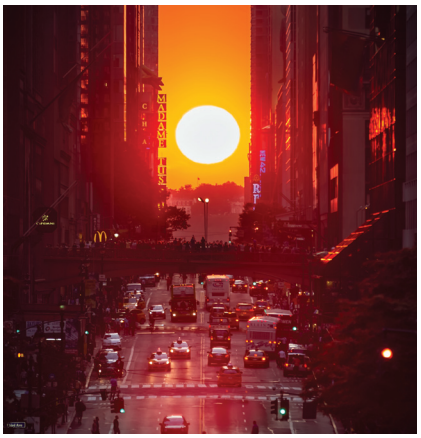
REGULARS

FEATURES



Some banks will never get free from their legacy costs, which means they will struggle to ever offer any value to customers

Rhydian Lewis, chief executive, Ratesetter

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WHAT YOU NEED TO KNOW

TOP STORIES FROM THE LAST MONTH

1 Shawbrook CFO resigns

Shawbrook's chief financial officer Tom Wood has resigned. Wood, who joined in 2012, said he needed more time for his family after "a very intense couple of years."

The specialist lender and savings bank announced Wood's departure on the same day it released an unscheduled trading statement revealing it had uncovered "irregularities" in its asset finance business. This will result in an extra impairment charge of £9m in the second quarter of 2016. The irregularities resulted from loans being underwritten that didn't meet strict lending criteria. The bank's chief executive Steve Pateman said: "Shawbrook has come a long way in a short period and Tom has played an important part in the bank's development, including helping to achieve a successful IPO."

2 *Ofgem probes Extra Energy*

Energy regulator Ofgem has launched an investigation into the billing and customer service practices of Extra Energy, after a high number of complaints about the supplier were lodged with Citizens Advice.

Ofgem released a statement saying: "We are aware of a high level of complaints made about Extra Energy and concerns expressed by Citizens Advice and the ombudsman. A significant number of these complaints relate to billing and customer service issues, including complaints handling."

Ofgem's investigators will now try to discover if Extra Energy breached its standards of conduct.

3 FCA increases fines to individuals

The value of fines dished out by the Financial Conduct Authority (FCA) to individuals has risen more than 140 percent in 12 months.

A study by law firm Clyde & Co shows fines against senior staff in financial services reached £17m in 2015/2016, compared to £7m in 2014/2015. During the same period the value of FCA fines against companies dropped to £880m from £1.4bn.

John Whittaker, partner at Clyde & Co, said: "Although it is difficult to draw firm conclusions from just three years of statistics, it does suggest the regulator now appears to be turning its focus towards individuals."

Under new rules, senior managers risk fines or bans unless they show they took reasonable steps to prevent wrongdoing within their teams. They currently apply to banks, building societies and insurers, but are expected to be extended across financial services by 2018.

4 *Hoist acquires first Spanish portfolio*

European debt purchaser Hoist Finance has acquired its first Spanish portfolio, which comprises non-performing banking claims originated by four regional banks.

Hoist said the "well-diversified" portfolio is made up of around 115,000 loans, of which 86,000 are consumer unsecured loans and 29,000 are loans to SMEs.

The total investment amounts to just over €22m. The estimated remaining collections amounts to about €48m over 120 months.

Najib Nathoo, regional director for west Europe at Hoist Finance, said the company was pleased to establish a presence in Spain which he called "an important European market".

5 CICM warning over moratorium for firms on brink of collapse

The move to a model similar to the USA's chapter 11 process for insolvent UK businesses could have serious consequences for creditors, a trade body has warned.

The Chartered Institute of Credit Management (CICM) has raised concerns about the move proposed in a government consultation. The proposal is to create a 90-day moratorium for struggling firms, which would give them time to be rescued while they're protected by legal action from creditors.

CICM chief executive Philip King said: "Viewed positively, this is a 90-day window for a company to work with a supervisor to turn the business around and save jobs. Looked at another way, it is 90 days in which the less scrupulous can fritter away assets whilst being 'untouchable', to the serious detriment of creditors."

6 *Landmark judgement for lenders*

Lenders will be able to reclaim all losses in a refinancing deal if a valuation is deemed to have been negligent, a court of appeal has ruled.

The ruling came in a professional negligence case between bridging lender Tiuta and De Villiers Surveyors, involving the valuation of a property development in Sunningdale, Berkshire. Tiuta sought to recover from De Villiers the £890,500 loss it suffered out of a refinance loan, claiming the valuation report negligently overvalued the property. In an earlier hearing the court ruled Tiuta's loss should be limited to the amount lost in 'topping up' the original loan. However, the Court of Appeal has overturned that decision, enabling lenders to reclaim all losses.

Georgina Squire, head of dispute resolution at law firm Rosling King, which acted for liquidators for Tiuta in the case, said the ruling was a landmark decision.

7 Enterprise Finance Guarantee programme widens

A government scheme which encourages lenders to lend more to small businesses by offering a guarantee on the loan is now open to new lenders, the British Business Bank has announced.

The Enterprise Finance Guarantee scheme, which provides accredited lenders with a government-backed guarantee for 75 percent of the loan value, already backs up to £300m of loans for small businesses per year via 40 accredited partners.

The scheme has been re-opened to new lenders following a review into the initiative, published earlier this year, which called for an "increase in the number and diversity of EFG accredited lenders."

8 *Creditors face new general fee for insolvencies*

The Insolvency Service is to introduce a new general fee charged by the official receiver, that will apply across all types of personal and corporate insolvency cases.

The new fee will be a flat £6,000 and replaces the percentage secretary of state fee that was charged on asset realisations in insolvent estates. It was charged throughout the life of a case up to a maximum of £80,000.

There will also be an increase in the official receiver's administration fee by £785 when a creditor petitions for an individual's bankruptcy. The new fee structure starts on July 21.

(See analysis, p9).

9 Brexit: ICO on data protection reforms

If the UK wants to trade in a single market with the EU, UK data protection standards would have to be the same as the EU's reformed regulations, the ICO has confirmed.

An ICO spokesperson said: "The Data Protection Act remains the law of the land irrespective of the referendum result.

"If the UK wants to trade with the single market on equal terms we would have to prove 'adequacy' – in other words UK data protection standards would have to be equivalent to the EU's General Data Protection Regulation framework starting in 2018." (See Brexit analysis, p10-13).

10 *MasterCard faces record £19bn claim over charges*

MasterCard is set to face a £19bn damages claim for imposing alleged illegal card charges.

The claim follows a long-running legal battle with the European Commission that ended in 2014, which found Mastercard to have infringed EU law by imposing interchange fees on the use of its debit and credit cards.

It is being brought as class representative by Walter Merricks CBE, as a representative of UK consumers. Under the Consumer Rights Act 2015 damages claims can be brought on behalf of a class of people who've suffered loss.

Merricks said: "My aim is to get the redress to which UK consumers are entitled and to ensure that MasterCard cannot hold on to the illegal profits it made. This case should send a signal to companies that break competition laws at the expense of UK consumers."

Merricks has instructed litigation law firm Quinn Emanuel.

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WHAT HAVE PREVIOUS DELEGATES SAID?

"Excellent discussions with highly relevant content to our industry"
Risk Manager, LaSer UK

"The event provided an clear insight into the expectations of sellers and purchasers in the FCA regulated environment. It was particularly interesting to hear the differing views from the smaller to the larger companies."
Head of Audit, Risk and Compliance, Motormile Finance

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CREDITORS FACE FEE RISES ACROSS BANKRUPTCIES AND CORPORATE INSOLVENCIES

The Insolvency Service is set to increase fees paid to the official receiver when individuals and firms end up insolvent. A new 'general fee' is also being introduced. ***Marcel Le Gouais*** *looks into the detail*

When creditors petition for an individual's bankruptcy in future they will pay £785 more through the official receiver's administration fee, under a new structure.

Credit Strategy can reveal The Insolvency Service is bringing in the new fee structure on July 21 and it means fee rises for the official receiver across both personal and corporate insolvency cases.

As well as the £785 rise for bankruptcies, the equivalent fee will increase by £2,480 when companies are wound up.

This fee will also increase by £2,500 when the government seeks to close down a company on public interest grounds. The new fee structure will be announced imminently and will take effect on July 21.

But the most significant change to the current fee regime will be a new general fee which replaces the old secretary of state (SoS) fees. The new general fee will be a flat £6,000 across all types of cases.

This new fee replaces the percentage SoS fee that was charged on asset realisations in insolvent estates. It was charged throughout the life of a case.

Assessing the new general fee, Paul Rouse, partner and head of national creditor services at Mazars, said: "This will enable stakeholders to estimate better the costs that will be charged on insolvent estates. The cost of entering insolvency, or petitioning for creditors remains largely unaffected, which is good news for both the indebted seeking options and for creditors seeking enforcement against those who can pay."

He added: "To have raised the threshold for a creditor's petition to £5,000 and then made it prohibitively expensive to enforce, would have been unfair."

Rouse explained the new general fee will have an interesting impact on bankruptcy cases that insolvency practitioners administer, as well as those handled just by the official receiver.

He believes that on cases with significant realisations, creditors will be the winners, because the change allows more funds to filter back to them. These funds, Rouse added, would previously have been engulfed by the secretary of state's percentage fee.

Rouse said: "On the flip side there are a significant number of bankruptcy cases where the secretary of state fees would have been below £6,000, allowing a small distribution to creditors. Although dividends are modest in these cases, the frequency is high. These cases will now effectively fund the official receiver and creditors will not benefit as they did previously. Ultimately, the overall proportion of such "modest" asset bankruptcy cases, against those with realisations of over (say) £30,000, will be shaped by the UK housing market."

Mazars' analysis, right, forecasts that when the amount paid into the Insolvency Service account on a bankruptcy is at £30,000 or more, the realisations for creditors under the new general fee start to increase.

This pattern continues as the amount paid into the account gets bigger. Although this example is not shown in the table opposite, Mazars' analysis shows that, under the new general fee, creditors would get £77,750 back when £100,000 is paid into the insolvent account. Under the current secretary of state fee, Mazars calculates that creditors would get just under £68,000 when £100,000 is paid into the account. The accountancy firm added that, on cases where £10,000 to £20,000 is paid into the insolvent account, the difference between creditor realisations under the new general fee is negligible.

Creditor realisations from bankruptcies, under old secretary of state fee

Amount paid into insolvency account:	£20,000	£30,000	£40,000
Minus secretary-of-state fee of:			
0 percent on first £2,000	£0	£0	£0
75 percent on £2,000-£3,700	£1,275	£1,275	£1,275
50 percent on £3,700-£5,200	£750	£750	£ 750
15 percent on £5,200-£396,000	£2,220	£3,720	£ 5,220
One percent on £396,001-total realisation	£0	£0	£0
Available to creditors after all other costs, fees and disbursements removed:	£149	£8,490	£16,990

Source: Mazars

Estimated creditor realisations from bankruptcies, under new 'general fee'

Amount paid into insolvency account:	£20,000	£30,000	£40,000
OR General Fee (flat fee)	£6,000	£6,000	£6,000
Available to creditors after all other costs, fees and disbursements removed:	£0	£7,750	£17,750

Source: Mazars

BREXIT, DEBT PURCHASE AND COLLECTIONS

Although it's early days with a political fallout still unfolding, Credit Strategy sought reaction from regulators, trade bodies, advice charities and debt purchasers, about what Brexit could mean in the short term. Here's what they said

Leigh Berkley, president, Credit Services Association (CSA)

"The CSA will be consulting extensively with government, UK and European regulators and stakeholders, and of course with our colleagues and friends across Europe, to ensure we continue to work productively together, and to highlight any practical or regulatory issues which need to be overcome as the terms of the British exit are negotiated.

"The Financial Conduct Authority (FCA) has confirmed that consumers' rights and protections will remain unchanged unless and until the government amends the applicable legislation.

"This is a pivotal time for the credit industry and the country. The CSA will support its members with further information and guidance to assist our industry in navigating the changes that will inevitably follow."

Financial Conduct Authority

"The FCA is in very close contact with the firms we supervise as well as the Treasury, the Bank of England and other UK authorities, and we are monitoring developments in the financial markets.

"Much UK financial regulation derives from EU legislation. This regulation will remain applicable until any changes are made, which will be a matter for government and parliament.

"Firms must continue to abide by their obligations under UK law, including those derived from EU law and continue with implementation plans for legislation that is still to come into effect.

"Consumers' rights and protections, including any derived from EU legislation, are unaffected by the result of the referendum and will remain unchanged unless and until the government changes the applicable legislation.

"The longer term impacts of the decision to leave the EU on the overall regulatory framework for the UK will depend, in part, on the relationship that the UK seeks with the EU in the future."

Ken Stannard, chief executive, Cabot Credit Management

"The debt recovery industry is a robust performer through political and economic cycles - as demonstrated over the past 10 years. Debt recovery has the ability to weather changes in macro-economic trends such as growth, unemployment, house prices and interest rates. Radical changes in regulation can alter creditors' willingness to outsource or sell their non-performing loans but there's no reason to anticipate this as a result of Brexit.

"If anything, pressure on banks and their need to re-run stress tests could result in a higher propensity to sell debt - not just in the UK but across the Eurozone.

"CCM is now on route to becoming a diversified European company. The majority of our investments in the last six months have been outside the UK. Our diversification by product makes sense in times of change as servicing revenues are reassuringly stable through different cycles.

"As an industry, in the short term we should hope for a return to political stability and in the medium term a return of confidence into the financial sector regarding UK and EU economic prospects. Sustained uncertainty and perceived risk is a much bigger threat to Europe's future than which route the UK has chosen."

Arrow Global
A spokesman for the debt buyer said: "We have operations based in the geographies in which we operate. We are licensed in our own right in these markets and as such are not reliant on so called 'passporting'. There are already a number of leading players in our industry that operate in the EU even though they are headquartered outside of its economic zone. As a result we do not anticipate any material changes to our business operations as a result of Brexit.

"We recently raised a €230m bond to finance our InVesting acquisition in the Netherlands and Belgium, repay outstanding amounts under our revolving credit facility and provide firepower for future investments. Our group is well positioned and has the funding available to execute its growth plans.

"Any decoupling is likely to be a lengthy process and require significant discussions and negotiations between the UK government, the EU, other countries and trading blocks. We will continue to monitor market and wider economic changes closely and we remain positive about our continued growth."

Philip King, chief executive, Chartered Institute of Credit Management
"As was proven in the financial crisis of 2007/2008, it is in times of great uncertainty that the true value and meaning of credit management comes to the fore, and the positive impact that credit managers can have in keeping the cash flowing.

"Today and in the foreseeable future it will be more important than ever for credit professionals to know their customers, their customers' customers, and markets in which they operate, and to keep a close eye on the macro economy and factors affecting it and their business.

"Stock markets, interest rates, currency fluctuations, GDP movement, trade deficits and many other similar variables could have a profound impact on future business, and monitoring their movements will be essential."

Joanna Elson, chief executive, Money Advice Trust (National Debtline)
"The Bank of England Financial Policy Committee recently published its latest *Financial Stability* report, which identified "the high level of UK household indebtedness" as one channel through which the referendum could increase risks to financial stability.

"Before the referendum consumer credit had been growing rapidly, and we were already expecting an increase in demand for free debt advice services in the years ahead. If the economy suffers in the wake of the Brexit vote, this higher level of borrowing risks leaving many households exposed to financial difficulty.

"Debt charities like National Debtline exist to help people who fall behind, as wider economic changes filter down into their personal finances. It is now more important than ever that we are prepared for what could be a significant increase in the number of people falling into problem debt in the UK."

Lowell GFKL Group
A spokeswoman for the group said: "The UK's decision… in turn is having a material impact on the financial markets. These events have no direct impact on the group and the day-to-day running of the Lowell or GFKL businesses. The group benefits from having sizeable liquidity available, our existing bonds are all fixed and our rolling credit facility allows us to draw in either GBP or EUR. This is a business that demonstrated resilience through the last economic downturn, where we continued to grow our acquisitions."

The Information Commissioner's Office
The ICO confirmed that if the UK wants to trade in a single market with the EU, UK data protection standards would have to be the same as the EU's reformed regulations.

A spokesperson for the data protection regulator said: "The Data Protection Act remains the law of the land irrespective of the referendum result. If the UK is not part of the EU, then upcoming EU reforms to data protection law would not directly apply to the UK.

"But if the UK wants to trade with the single market on equal terms we would have to prove 'adequacy' – in other words UK data protection standards would have to be equivalent to the EU's General Data Protection Regulation framework starting in 2018.

"With so many businesses and services operating across borders, international consistency around data protection laws and rights is crucial both to businesses and organisations and to consumers and citizens. The ICO's role has always involved working closely with regulators in other countries, and that would continue to be the case. Having clear laws with safeguards in place is more important than ever, given the growing digital economy, and we will be speaking to government to present our view that reform of the UK law remains necessary."

Mark Carney, governor, Bank of England
"A few months ago, the bank judged that the risks around the referendum were the most significant, near-term domestic risks to financial stability. To mitigate them, the Bank of England put in place extensive contingency plans. These begin with ensuring the core of our financial system is well-capitalised, liquid and strong.

"This resilience is backed up by the Bank of England's liquidity facilities in sterling and foreign currencies. All these resources will support orderly market functioning in the face of any short-term volatility. The bank will continue to consult and co-operate with all relevant domestic and international authorities to ensure that the UK financial system can absorb any stresses and can concentrate on serving the real economy. That economy will adjust to new trading relationships that will be put in place over time. It is these public and private decisions that will determine the UK's long-term economic prospects.

"It will take some time for the UK to establish new relationships with Europe and the rest of the world. Some market and economic volatility can be expected.

"These adjustments will be supported by a resilient UK financial system – one the Bank of England has strengthened over the last seven years. The capital requirements of our largest banks are now 10 times higher than before the crisis. The Bank of England has stress tested them against scenarios more severe than the one which the country now faces. As a result of these actions, UK banks have raised over £130bn of capital, and now have more than £600bn of high quality liquid assets. This capital and huge liquidity gives banks the flexibility they need to continue lending to businesses and households."

AU REVOIR ECONOMIC STABILITY: BREXIT VOLATILITY IS HERE

A consensus suggests it'll take time for the impact of Brexit on consumer collections to play out. But for professionals in insolvency, trade credit or even those with a commercial interest in the performance of UK plc, forecasts for the next two years have been obscured by uncertainty. ***Marcel Le Gouais*** *collated commentary on some firms' expectations*

Bank of England governor Mark Carney urged Britons to be prudent last month, warning that the country was entering a period of significant economic adjustment.

Carney has in fact taken on the role of assuring stability for the financial markets and the public – thereby doing a job for the latter that the chancellor has failed at comprehensively.

Since the Bank of England's more measured responses, some reaction from law firms and trade credit risk specialists have been somewhat bleak. Their views are all included here.

A blow to confidence

"A number of businesses in markets reliant on the discretionary spend of consumers could suffer financial difficulties before the end of the year as a result of economic uncertainty stemming from the UK's decision to leave the EU," Nick Pike, insolvency expert at law firm Pinsent Masons believes.

He added: "Until the terms of the UK's future trading relationship are decided, or at least a clear path forward identified, businesses are likely to be cautious about making investment decisions and consumers likely to defer spending. This could spur an economic downturn with consequences for the viability of some companies.

"A lack of business and market confidence is likely to translate eventually into more cautious consumer spending, as the public wait to see how Brexit will impact on jobs and interest rates, for example. A drop-off in consumer spending would have a particular impact in industries reliant on the discretionary spend of the public. Retailers, house builders, airlines and holiday companies could be among those most affected."

Although there are no signs of consumer spending dropping off immediately, Pike added that there are already anecdotal reports of businesses putting transactions and investment deals on hold in the aftermath of the vote. He believes this has potential to start impacting on consumer confidence and spending. It might be that the first true effects of Brexit on consumer spending are seen during the final quarter of this year.

Pike added: "The Bank of England has a difficult path to tread in creating favourable conditions for business growth in the current political and economic climate. The low value of the pound is increasing the cost of imports and may lead to a rise in inflation, which could impact on consumer spending.

"However, many businesses would be against any rise in interest rates designed to dampen that inflation, due to the increased costs they would incur as a result. With interest rates currently set at 0.5 percent there is little freedom for the Bank of England to reduce rates further to encourage spending."

GDP could drop "one to three percent"

The UK's gross domestic product (GDP) – a key indicator of economic growth – could fall up to three percent in the next two years due to Brexit, according to a credit risk specialist.

The warning came from trade credit insurer Atradius – one of the few companies to publish specific figures on the estimated short-term economic effects of Brexit.

Its statement explained that some impact has already been felt with the depreciation of the British pound and delayed investment in businesses and staff. It added that UK GDP is expected to reduce by one percent to three percent in the next two years. The structure of trade agreements over

the coming two years will determine the longer term impact, it added.

Atradius stated that an impact will be felt elsewhere. It added that for the Netherlands, foreign direct investment will be affected and for Ireland and Norway export trade could be impacted.

It also believes the Benelux countries and Ireland are expected to see increases in insolvencies ranging from one percent to 3.5 percent. It expects the change in insolvencies in other European countries to be negligible.

Andreas Tesch, chief market officer for Atradius, said: "In the UK the economy had settled to a more moderate growth of 0.4 percent in the first quarter. However, the vote to leave has had an immediate impact on the exchange rate against all primary currencies.

"While we acknowledge that trading treaties need to be addressed, in the short term, businesses trading overseas will continue and benefit from a lower exchange rate."

Other reactions from the industry, specifically from trade bodies and lenders, have focussed more on the regulatory structure for the UK. Some banks have even sought to provide assurance that there will be no immediate changes.

Barclays still open for SMEs

Either by virtue of timely opportunism or genuine strategy, Barclays' business lending division issued a rapid response. It tried at least to inject some optimism into the debate, emphasising that it was still open for business to SMEs and will remain so.

Ian Rand, chief executive of business banking at Barclays, said: "Following the referendum many businesses will be reassessing their plans for growth and may need to re-plan or increase the resilience of their finances.

"SMEs should know that even if their outlook is looking less clear, their bank is on their side and will support them through thick and thin. We are reaffirming that Barclays is well positioned to meet demand from SMEs for lending."

Rand added that Barclays business banking aims to achieve this through the following plans:

* Maintaining its aim to beat last year's total of £5.4bn in SME lending;
* Confirming the bank has "no plans to withdraw or increase" the competitive rates it offers due to current economic uncertainty;
* Committing to the 300,000 UK SMEs currently eligible for an instant overdraft or loan that they will continue to have access to these funds instantly in branch, by phone or online should they need it. Barclays sad it will "continue to grow this proposition";
* Providing extra business managers in call centres who can support and guide SMEs on how to plan for uncertain times;
* Boosting its specific funding for industries with high exposure to economic change including the technology and agriculture sectors, with further details to be announced in the coming days."

Turbulence ahead

Blair Nimmo, head of restructuring at KPMG UK, a role that involves overseeing the restructure and turnaround of struggling businesses up to FTSE 250 size, was also slightly more optimistic than others.

"The vast majority of UK companies will navigate the uncertain economic waters successfully. However, for a small number of businesses, heavy turbulence in the capital markets and the knock-on impact on liquidity could leave them in a fairly perilous position. We have seen examples in the recent past of companies entering into insolvency as a direct result of such market volatility, so companies absolutely must be on the front foot and ready to take action over the coming days and weeks if they are particularly vulnerable.

"Ultimately, the key to good decisions over the coming weeks and months will be a calm and measured consideration of the facts as they become known over time."

A voice for SMEs

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How to maximise existing business assets

Businesses often struggle to find finance that works specifically for them and consequently end up buying an ill fitting, off the shelf model.

Why? Business owners are acutely busy and do not have the time or resource to comb the market looking for a bespoke option or piecing together the offerings from different providers. The result can be a business that feels like it works for their finance provider, spending too long either reporting or worrying that a sudden change in performance, good or bad, will create a cash hole.

IGF's research shows that one in four business leaders feel that the credit options available to SMEs have unfair payment terms and over 40 percent of owner managers are nervous of the consequences of not meeting their commitments. This is in addition to the worry of compliance, winning customers, shipping product and looking after employees.

The crunch often comes when a business wins a great contract, has the opportunity to buy a competitor, launch a new product or simply take cash out of a successful asset rich business.

Asset based lending (ABL) offers a solution. There is true value locked up in hard earned assets such as outstanding invoices, inventory or machinery and property where the finance has been paid down or paid off. Where traditional banking only assesses future income stream for repayment, ABL reflects the value already built and gives credit for that.

Finance can be obtained against invoices, stock, plant and machinery plus property. In addition, a cash loan above the value of the assets can often also be made available. Because the lending is asset based, a difficult past or unpredictable future need not be a barrier to finance.

NICK OLLARD
Head of debt sale, TDX Group

THE LAST HANGOVER FROM AN "ASK NO QUESTIONS" AGE

Post debt-sale reporting and customer level selling require a considered review, explains ***Nick Ollard***

Reporting to credit reference agencies (CRAs) on your customers' accounts post sale has been debated by the industry for a number of years.

The process of how this is done is often based on what is deemed the easiest and quickest solution, meaning there is no one standard approach.

At TDX Group, we believe this inconsistency is unfair. It feels as if this is one of the last hangovers from the days where highest price and speed of transaction, (ask no questions), were industry standard practice.

The inconsistent approaches adopted can mean consumers find that what is recorded on their credit report is dependent on who is selling the debt and who is buying it.

In a world where customer treatment and fair outcomes are at the heart of everything we do, is it right that the sale of an account may show up differently on one consumer's credit report compared to another, depending on which companies are involved in the process? The impact of this is that their ability to manage their financial affairs will vary.

The method

There are currently three accepted methods in the industry on how a credit record can be transferred from a seller's to a buyer's CRA portfolio. They are:

1. Delete and re-add: Where a seller will delete the entire credit history and then the buyer will re-add the account, with no history in their monthly CRA submission.
2. Full transfer: Where the complete credit history is transferred by the CRA from the sellers to the buyer's portfolio.
3. Flag and re-add: Where a flag is marked on the seller's record indicating the account has been sold and a new record is opened by the buyer.

"Is it right that the sale of an account may show up differently on one consumer's credit report compared to another, depending on which companies are involved?"

It is common practice to see all three of these methods being regularly used throughout a single year of transactions. The industry data sharing oversight body, Steering Committee on Reciprocity (SCOR), recently issued guidance putting the responsibility onto the sellers and buyers to agree a process.

However, at TDX Group, because we act in the centre of the industry, where we're working with buyers and sellers on transactions, we have seen issues with all of the methods and none of them have shown to be fool proof.

Some examples of problems include: duplicate records being live for a consumer; no records being available; or the flag not being marked before the new record is uploaded – all of which have a different impact on the consumer.

At this stage we are not calling for one method over another, although we do believe it is time to stop option one (delete and re-add).

This is the method often used because it is the most straightforward process, and yet the impact on the consumer hasn't been fully assessed.

If you asked creditors how they would treat a customer who had an account on their history which started with a default – what do you think the answer would be?

Decent proposal

At TDX Group, we're calling for the industry to go through a considered review and ensure that all parties thoroughly understand the impacts; not only the impact on a customer's credit record at point-of-sale, but also for the years thereafter.

We're also developing ways to improve transparency across the industry and have recently developed a fresh approach to segmenting assets before they're sold. Customer level selling enables purchasers to buy accounts where they already have a positive relationship with the customer.

Ultimately the outcome we're all striving for is one of consistency – that is what we ask of our regulator and we believe it only fair that we strive for the same outcome in our processes.

In 2016, with the majority of our industry having achieved or nearly achieved regulatory authorisation, it seems totally at odds that consumers could be disadvantaged depending on which debt sale process they find themselves in.

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SOPHIE GUIBAUD
Vice president, european expansion, Fidor Bank

STOP, INNOVATE AND LISTEN

Banks need to ensure customers feel they have a voice, and make changes to demonstrate that this voice has been heard, argues ***Sophie Guibaud***

It should be obvious to most major retail banks. To continue to hang on to customers, they'll need to come up with innovative new products.

While internet and mobile banking services are gradually getting better, a new wave of fin-tech start-ups is coming along and winning the hearts and minds of consumers by providing seamless experiences, convenience and genuinely ground-breaking services.

Transferwise, Nutmeg and Zopa are perfect examples of this. And if the new market entrants win over these customers, then the incumbents will lose out.

So while the need for new products is clear, there are a number of challenges that stop banks simply rolling these out.

Firstly, legacy core banking systems make this very difficult to achieve from a technical point of view. Secondly, internal red tape and bureaucracy create a number of obstacles that take time to overcome. But there's also a third problem: how can these banks actually be sure they know what their customer actually wants?

Traditionally, banks haven't been very good at putting their customers' needs first. The perfect illustration of this is the opening hours of the typical bank branch - closed at weekends, closed at lunchtime, shut for the day by the time the average person finishes work.

This is still indicative of the way many banks think; they have not yet learned how to put the customer at the centre of their operations. But if they were to do so, they would be able to gain so many valuable insights into the types of services and functions that customers want.

"It's better to give people an environment in which they can ask questions, communicate with other customers, post idle thoughts and more deeply conceived ideas at any time"

Interaction

Giving customers a voice is easily done. You can implement systems to gather feedback such as surveys and telephone polls. However, this method is a lot of work and can be costly. Often, putting people on the spot isn't the best way to get thoughtful, honest feedback. It's better to give people an environment in which they can ask questions, communicate with other customers, post idle thoughts and more deeply conceived ideas at any time they like. So why more banks haven't implemented online community forums is a mystery to me.

Listen up

Customers who feel like they have a voice and can contribute to the banking services they use are likely to be much more engaged and therefore more loyal.

Like forums in many other digital services, such as those offered by ISPs, they can quite often be run with minimal intervention from the bank itself, with members of the community doing much of the work. So for relatively low set up and running costs, banks can create a great resource from which to gather ideas and feedback and make sure the offering they develop fits with customer expectations.

Whether or not PSD2 regulations affect the banking sector in the UK, which is in some doubt after the results of the EU referendum, customers are going to have much more choice in the future about the types and nature of financial services they use.

Banks that give these customers a voice and listen to what is being said will be the ones to win out.

PRODUCT EVOLUTION, MARKET DISRUPTION

CAR FINANCE CONFERENCE

Car Finance has become a powerhouse in UK financial services, growing to an unprecedented market size. Yet for all its momentum, it faces an uncertain future. Besides Brexit, changes to the way consumers approach vehicle purchase – even the concept of mobility – are presenting finance houses with challenges and opportunities.
What's more, everyone has their own idea of what's coming – and of how to prepare for it. Credit Strategy's Car Finance Conference, held in Solihull on June 9, brought those ideas together to find a consensus. Here's what was discussed.

The day's discussion kicked off with an on-stage interview with Andy Entwistle, director at Car Dealer magazine and a former operations director at HPI.
Entwistle talked about the effect of the ongoing personal contract purchase (PCP) boom on the used market, representing the views of dealers on the growing influx of ex-contract vehicles and the softening of residual values.

Looking further ahead, he discussed how tech giants such as Apple and Google might disrupt the mobility market, and wondered how changes in consumer attitudes to ownership would shape the evolution of finance products.

In closing, he posited one model of the industry's future in which manufacturers became in essence giant rental companies, leasing vehicles to consumers on short and flexible terms depending on their immediate – even week to week – needs.

Crystal balls

The long-range forecasting continued in the keynote panel, where Spencer Halil, managing director at Alphera Financial Services, Karl Werner, head of sales and marketing at MotoNovo, James Wilkinson, chief executive at Zuto, and Rob Abrahams, market development manager at Carwow, discussed how consumers would be financing vehicles by 2020.

Fred Crawley, managing editor, *Credit Strategy*

Product evolution featured heavily in this discussion, with personal contract hire (PCH) highlighted by all panellists as a rising tide. An audience poll backed this up, with 57 percent of attendees expecting PCH to make up more than 25 percent of new contracts written by 2020. Direct-to-consumer online lending was also a major topic of conversation, with 70 percent of the audience expecting more than 50 percent of deals to be originated online by 2010.

The third big issue was used car finance, and as Motonovo's Werner put it, the 80/20/80 conundrum – the fact 80 percent of consumers need finance for car purchases, but in used cars, just 20 percent actually opt for dealer finance. Despite this, over 80 percent of those who do take finance are happy to promote their purchase experience to others.

Dealers or retailers?

The conference's next panel handed the conversation over to the dealers themselves, as Adam Stott, managing director of Big Cars and Steve Rowe, head of F&I at Pendragon, discussed sustainable growth with Adrian Dally, head of motor finance at the Finance & Leasing Association.

One of the first issues to come up was

terminology – Pendragon's Rowe argued that, with the increasing sophistication and product expertise on show across the UK motor trade, it was time to start phasing out the term "dealers" in favour of "retailers".

As well as returning to earlier themes of consumer demand and attitudes towards asset ownership, the panellists looked at how regulation was impacting the retail environment, particularly as it applied to online activity, and to shared compliance responsibilities between lenders and retailers. Price competition and commissions were discussed as part of a debate on what sustainable growth entailed, as was the traditional role of the business manager in an increasingly online-led finance environment.

Affordability and underwriting

Following the sustainable growth panel, Callcredit Information Group's Richard Hibbert took to the stage to give further insight on the regulatory burden on retailers and lenders, with a particular focus on affordability.

His presentation looked at information gathering in this context, as well as with regard to know your customer (KYC) principals, mitigating fraud and delinquency risk, and treating customers fairly by setting them up with the right products.

Hibbert's presentation formed a logical bridge between the previous panel's discussion of sales, and the next panel's discussion of underwriting. Debating this were Julian Rance, head of car finance at Paragon Bank, John Hughes, director at Mann Island Finance, and Luke Sugden, credit risk director at Close Brothers Motor Finance. Topics reviewed included automation, the underwriting of marginal deals, and the use of multiple credit information sources in the underwriting process.

Perhaps the most interesting issue raised was the "holy grail" of rate for risk capability – that is, a single product, offered across the whole credit spectrum, with APR commensurate to a customer's risk profile. Audience polling showed a diverse range of opinions on whether such a product existed (and even whether it is possible), and the panel was similarly divided.

Pricing at the point of sale was also discussed, as was the setting of lenders' risk appetites – and the practical challenges involved in implementing changes to these appetites. Finally, the discussion moved to discuss the widening of risk areas considered by underwriters – from classics such as the movement of used car values, to macroeconomic factors.

Handling arrears

Following on from the discussion of mitigating risks, the next panel – comprising

Andy Entwistle, director, Car Dealer

Shannon Faulkner, collections and recoveries manager at Honda Finance Europe, Santander Consumer's head of risk strategy Richard Kernick, and Link Financial Outsourcing managing director Frank Horvath – discussed the management of arrears in car finance portfolios.

Despite low default levels across the industry at present, it became clear that many lenders are gearing up for an increase in arrears. Audience polling for the session found that 70 percent of delegates expected to see arrears rise over the next 18 months, and 89 percent expected to see them rise in the next 36 months.

Some 43 percent of the audience expected to make use of an external servicer, while 72 percent were found to be using – or considering using – debt sale.

During the discussion, the panel discussed their own forecasts for future arrears levels, as well as their internal approaches to litigation, in-house collections teams, and use of third parties in collections and recoveries. In addition, the panel tackled audience questions on subjects ranging from tracker and immobiliser devices, to arrangements and customer vulnerability. The afternoon sessions kicked off with Malcolm Banfield, commercial director at RCI bank, giving arguably the best presentation of the conference as he explained the UK point of sale market from the point of view of a major European manufacturer group.

As well as giving a run-down of macro-economic factors figuring into manufacturer finance strategy, he explained the strategy behind RCI's formation of a deposit-taking bank to achieve a more competitive funding position.

Banfield stayed on stage for a panel discussion on designing finance campaigns for manufacturer support, where he was joined by BMW Group Financial Services' head of marketing Nigel Unwin, and Ian Dewsnap, director of European operations for Benchmark Consulting.

As well as discussing a problematic use of the word "captive" to describe manufacturer finance providers, the panel discussed a balance between "one size fits all" promotions and targeted offers, and the management of customer data to identify the right customers for the right offers.

Working in partnership

The day's final panel session saw Christopher Bosworth, director of strategy at Close Brothers Motor Finance, DSG Financial Services managing director Richard Hoggart, Steve Reynolds of Marsh Finance and Mark Zavagno, head of digital sales at Stoneacre, meet on stage to discuss the changing relationship between dealers and finance houses. In a lively debate, the panellists talked about how lenders and retailers can work together to create increased customer engagement

L-R: Karl Werner, MotoNovo; Rob Abrahams, Carwow; Spencer Halil, Alphera Financial Services; James Wilkinson, Zuto

at the point of sale, and the challenge of improving a lending model that – in essence – has not been changed in three decades.

Regulatory pressure came under the spotlight again, with dealer licensing, customer pricing and remuneration all coming under scrutiny.

Lender service priorities were also discussed, from acceptance levels to speed of payout, and the use of e-signature and paperless technology was raised. The role of brokers in the point-of-sale market also came up, in particular their development into lenders in their own right.

Clouds on the horizon

Following on from the discussion on e-signature technology, the day's penultimate presentation came from Abe Smith, chief executive at Dealflo, and dealt with the compliance requirements around the signature process – Smith's argument was that, given the increasing complexity and challenges associated with the agreements process, e-signature was no longer an adequate solution in itself.

Finally, the conference was closed by Philip Shaw, chief economist at Investec, who pulled together several of the day's major themes to map out the broad opportunities and threats facing the sector. Shaw presented these alongside a range of macro-economic factors, from oil prices and the rise of electric vehicles, to changing consumer demand drivers.

Shaw's main topic of discussion, however, was the possibility (now reality) of the UK leaving the EU, and the range of short and long-term impacts – largely negative – this might have on the economy.

The mood as the conference closed, two weeks before the referendum, was that the result – especially in the event of Brexit – would almost certainly dominate next year's agenda.

LIGHTS, CAMERA, INTERACTION

The conference featured interactive technology, Sli.do, which allowed delegates to type in questions directly to panellists from their mobiles. In addition, research commissioned by Arrow Global meant the chair could quiz them back on key topics. Results of the Arrow research will feature in Credit Strategy's car finance newsletter, but here are two results from delegates' questions on the day.

QUESTIONS FOR DELEGATES	OPTION %	% OF DELEGATES
What percentage of car finance agreements do you think will be originated online – rather than at the point of sale – by 2020?	0% - 25%	6.5
	25% - 50%	26
	50% - 75%	39
	> 75%	31.2
What percentage of finance agreements for new cars will be made up of PCH by 2020?	0% - 10%	6.7
	10% - 25%	36
	25% - 50%	40
	> 50%	17.3

Car Finance Awards 2016

CAR FINANCE AWARDS 2016

Following the close of the Car Finance Conference the venue was redressed, and the winners of the Car Finance Awards 2016 were revealed.

During the ceremony, hosted by journalist and presenter Vicki Butler-Henderson, 10 firms took home 16 awards, prompting a celebration that lasted well into the early hours of the morning.

Managing editor and master of ceremonies Fred Crawley said: "After losing sleep at the prospect of launching a new event in the sector, I couldn't have been happier to lose another night celebrating with the industry's best.

"I'm tremendously grateful to the judges, sponsors, dinner guests, finalists and winners who allowed this event to match the calibre of its attendees."

Thanks to the generosity of guests, the night raised more than £2,500 for chosen charity BEN, a not-for-profit organisation supporting those who work, or have worked, in the automotive industry and their family dependents.

The winners

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Sponsored by Amigo Loans
Winner: Evolution Funding

Best Online Finance Offering
Sponsored by Oracle Finance
Winner: Codeweavers and BMW Financial Services

Best Non-Standard Lender
Sponsored by Zuto
Winner: Moneybarn

Best New Lender
Sponsored by DSG Finance
Winner: Blue Motor Finance

Compliance Expertise
Sponsored by Callcredit Information Group
Winner: GM Financial

Best Law Firm
Winner: Shoosmiths

Best Credit Team
Sponsored by Lester Aldridge
Winner: Moneybarn

Innovation Award
Winner: Black Horse

Customer Service Excellence
Sponsored by Equiniti Pancredit
Winner: MotoNovo Finance

Best Use of Technology
Winner: Blue Motor Finance

Best New Technology
Winner: Callcredit Information Group and CarFinance247 – MOGObankconnect

Best Independent Lender
Sponsored by Evolution Funding
Winner: Blue Motor Finance

Best Large Independent Lender
Sponsored by Evolution Funding
Winner: Black Horse

Best Service for Dealers
Winner: GM Financial

Best Manufacturer Finance
Sponsored by Intelligent Environments
Winner: BMW Financial Services

Judges' Award for Outstanding F&I Performance
Winner: Steve Rowe – PENDRAGON

CCS AWARDS
COLLECTIONS & CUSTOMER SERVICE

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- Charitable Initiative of the Year
- Conduct & Compliance Leader of the Year
- Contact Centre Team of the Year - **NEW**
- Contact Centre Leader of the Year - **NEW**
- Debt Advice Provider of the Year
- International NPL Expertise – Company - **NEW**
- International NPL Expertise – Individual - **NEW**
- Public Sector Collections Team of the Year in Association with LACEF
- Vulnerable Customer Support Initiative – Creditor
- Vulnerable Customer Support Initiative – Non-creditor

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4. Submit your completed forms online along with up to two a4 pages of evidence for each

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Find out more on page 8

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TWILIGHT ZONE?

At a University of Edinburgh conference last autumn, credit analysts warned that traditional banks face a challenge from peer-to-peer platforms. A new Deloitte report skewers this view, suggesting they're not a genuine threat, but may become an ally. ***Christine Toner*** *asks if the sun is setting on peer-to-peer lending as a true disruptor to the mainstream*

In just 10 years peer-to-peer or 'marketplace lending' as some have started to call it, has gone from being a fringe, niche market to a credible – and often much needed – alternative to the mainstream banks.

According to industry trade body, the P2P Finance Association, peer-to-peer platforms have enabled lenders to provide more than £4.4bn of funds to UK consumers and businesses since the market's inception in 2005.

Such has been the rise of this market that it has led to speculation that alternative online finance could become a major threat to the banking industry, as consumers flock towards a lending solution which ticks all the boxes of today's tech-obsessed, fast-paced society. So do traditional lending institutions have something to worry about? A recent report begs to differ.

Temporary innovation/long-term duration

As the title of Deloitte's report "Marketplace lending: A temporary phenomenon?" suggests, the study calls into question the impact the alternative online finance sector has had to date.

In a conclusion which has angered many industry players the report claims: "Marketplace lenders (MPLs) do not have a sufficiently material source of competitive advantage to threaten banks' mainstream retail and commercial lending and deposit-gathering businesses."

While industry players have called the report flawed and expressed disapproval for the findings, the report is not without praise for the industry. Indeed, it acknowledges several times that peer-to-peer can offer a better customer experience "enabled by a fast decision-making process and the small amount of documentation that borrowers need to provide as part of a loan application".

It also recognises – and highlights – the advantages MPLs have in processing and servicing loans, noting that a "fully

Jaidev Janardana, chief executive, Zopa

automated process for processing and underwriting loans allows MPLs to avoid the material costs that banks have to deal with as a result of their legacy systems and multiple channels.

"This also holds true for servicing where a surprising number of banks have, for example, no automated scoring systems for SME overdrafts – this results in a significant proportion of relationship managers' time being taken up in renewing overdrafts."

Despite such factors in favour of MPLs, Deloitte cites three reasons for the sector's supposed lack of impact.

Firstly, while MPLs have a cost advantage in terms of operating costs, this is "insufficient to offset the banking model's cost of funds advantage," the report claims.

Secondly, while the speed and convenience offered by peer-to-peer lenders are big draws for consumers, banks are also able to replicate this innovation and as such will be able to offer these benefits too. Furthermore "borrowers who are willing to pay a material premium to access loans quickly are in the minority."

Finally, the report says consumers understand that lending money via an MPL doesn't compare with depositing money with a bank, largely because peer-to-peer investments are not covered by the government's Financial Services Compensation Scheme (FSCS).

On the subject of credit risk Deloitte accepts that MPLs will systematically price risk better in areas where "banks have an appetite to play" and highlights a number of potential advantages over the traditional banking model. These include a "willingness to experiment with a wider set of data sources for risk scoring" and "a more agile approach to developing and evolving a more agile core risk-scoring algorithm. Furthermore, it is noted that "the current quoted loss rates of MPLs look no worse than typical bank loss rates".

However, the report makes a point of highlighting the sector's relative immaturity and the fact that the majority of UK MPLs are yet to go through a credit cycle. As such it says it "remains to be seen if there will be an increase in default rates in the event of an economic downturn".

"Flawed assumptions"

Unsurprisingly the peer-to-peer industry reacted strongly to Deloitte's findings.

"Many of the conclusions in the Deloitte report depend on assumptions which do not reflect the development of peer-to-peer lending to date," says Robert Pettigrew, policy director at the P2P Finance Association. "Peer-to-peer lending platforms have already established a permanent presence in the mainstream financial services' sector, and the experience of the last economic downturn was favourable: not a single investor lost their capital, and platform performance was positive compared with the operation of the banking sector."

The trade body says peer-to-peer lending platforms provide a "vibrant, flexible and competitive mainstream financial services product, whose business model is based on the effective assessment and management of credit risk" and rebuffed suggestions that such lending is designed for borrowers with nowhere else to turn.

"The performance of all lending is contingent on the quality of the assessed ability of a borrower to repay their loan," it claimed.

Unsurprisingly, key industry player Zopa has also spoken out against the report. The UK's largest peer-to-peer platform criticised three assumptions the report makes, which it says are incorrect.

Firstly, Deloitte's suggestion that peer-to-peer players offer expensive credit and thus customers who are willing to pay more will be in a minority, says Jaidev Janardana, chief executive of Zopa, is "a flawed assumption".

"You only have to look up any of the price comparison sites to know this," he says. "Zopa has consistently given some of the lowest rates in the UK. I believe that this, with our much lower cost of operation and better credit risk capabilities, will mean that Zopa will continue to be the provider of best value loans for consumers."

Secondly, says Janardana, the idea that peer-to-peer players haven't built any sustainable competitive advantage, is incorrect, adding: "Banks today are spending hundreds of millions of pounds on their technology, but an overwhelming majority of that spend is not customer facing and will not derive any tangible customer experience benefit at least until the very long term. They are investing thousands of man hours to change their culture. So I am not sure how Deloitte made this assumption."

Finally, Janardan disagrees with Deloitte's assertion that banks can easily replicate the innovation that the fin-tech industry has pioneered.

"If that were to happen, then it would indeed be a challenge," he says. "However, we are all yet to see it and I am not sure it will be easy for the banks."

Neil Tomlinson, head of UK banking, Deloitte

In contrast to Deloitte's prediction that "MPLs will not be significant players in terms of overall volume or market share", (based on its calculation that market penetration achieved by MPLs is to date below one percent), Zopa believes peer-to-peer will take a significant market share of

COLLECTIONS AND RECOVERIES

Deloitte's research shows that at maturity, when MPLs' loan portfolios are likely to resemble more closely those of the market as a whole, MPLs will have no material source of cost advantage over banks relating to collections and recoveries. Deloitte adds that while MPLs may pass the costs of collections and recoveries onto lenders, this will over time simply "increase the required return and the cost of funds."

the personal loans market, with Zopa itself aiming to take 20 to 30 percent in the next five to 10 years.

Rhydian Lewis, chief executive and co-founder at RateSetter says that while he agrees with Deloitte about the importance of cost of funds, this is an advantage banks will not hold for long.

"Our model is designed to reduce risk by building a surplus in our provision fund. Over time as we build up a consistent track record and people see lending as less risky, the risk premium they require for their investment will decrease," says Lewis. "As this happens, we will be able to compete more effectively with banks' cost of funds.

"Some banks will never get free from their legacy costs, which means they will struggle to ever offer any value to customers," he adds. "In time, we believe that the majority of lending will take place via marketplaces which efficiently and safely match risk-seeking capital with return-paying loans."

Working together

While Deloitte's findings suggest the banking industry is not under threat from alternative online finance, it does acknowledge there are areas in which marketplace lending will thrive - primarily in areas of the market where banks do not have the risk appetite to compete.

The report states: "This will form a bridgehead from which they can expand at those times in the cycle when banks are pulling back from lending or relying on super-normal profits in order to cross-subsidise other parts of their business. (This is a particular problem in the UK at this point in the cycle). We believe there is a consumer benefit to be had by establishing an innovative MPL sector, provided that consumer interests are fully considered and that players do not overreach and over-promise in trying to compete with banks in mainstream markets."

Head of UK banking for Deloitte Neil Tomlinson adds that banks "have more to gain than to lose from implementing a strategy of effective collaboration and partnering with MPLs."

It's a trend underway in the US market where collaboration between banks and marketplace lenders is proving successful and Deloitte says it expects stronger integration of this sort to happen in future.

Such collaboration in the UK could take various forms. The report suggests a number of options for banks looking to embrace the MPL model, several of which are already being practised.

The deploying model, for example, by which banks invest customer deposits through an MPL platform, is currently employed by Metro Bank which deploys customer deposits through Zopa.

The referral option (i.e. referring less profitable customers or customers outside of the bank's risk appetite to an MPL platform) is something both RBS and Santander do, referring SME customers rejected for a loan to Funding Circle.

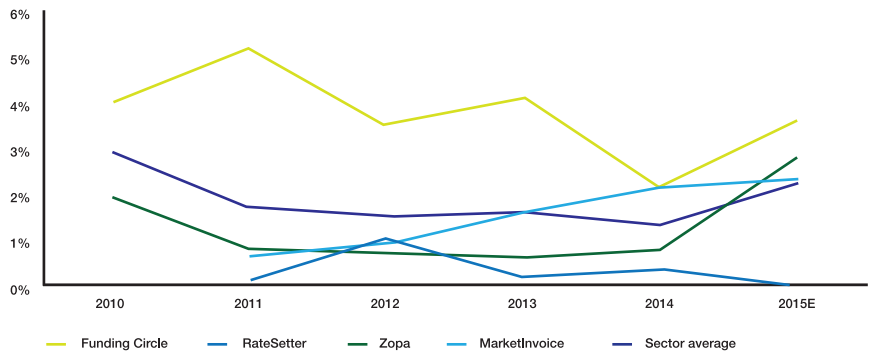
One suggested route for collaboration for which there are no known examples at present, at least not in the UK, is the creation of a bank-branded MPL, for which the bank provides only the brand name with the end-to-end model operated by third-party MPLs. Such a set-up, says Deloitte, would offer a "relatively quick, low-risk and non-capital-intensive way to enter or expand a bank's participation in existing or new segments" although there are risks associated with it, particularly in relation to the brand.

Perhaps the biggest indicator a collaborative approach between banks and MPLs could be the way forward is the fact the alternative finance sector is now regulated by the FCA and a number of peer-to-peer platforms are expecting to receive authorisation soon.

The P2P Finance Association believes the regulatory changes will only serve to fuel the sector's growth: "Peer-to-peer platforms have embraced a regulatory regime overseen by the FCA. This is supplemented by the association's operating principles, which require an enhanced commitment to levels of transparency and business standards to provide reassurance, scrutiny and confidence," the association says.

Rhydian Lewis, chief executive, Ratesetter

Peer-to-peer default rates, 2010 to 2015



Source: Deloitte's estimated default rates from MPL websites

THE PINBOARD

Court Enforcement Services acquires Elliott Davies

Court Enforcement Services, a provider of high court and civil enforcement services, has acquired competitor Elliott Davies.

Based in the north east of England, Elliott Davies is the high court enforcement business formerly owned by law firm Ascent.

Court Enforcement Services said the deal strengthens its position in the high court enforcement and commercial rent arrears recovery (CRAR) sectors. Financial terms were not disclosed.

The combination of the two firms will help Court Enforcement Services to expand its share of the market in north east via Elliott Davies's expertise in the region.

For Elliott Davies it will enable the company to build on relationships with existing clients, supported by its new owner's national resource.

Malcolm Davies, an authorised high court enforcement officer, joins Court Enforcement Services' senior management board.

He said: "I am excited that Elliott Davies has joined Court Enforcement Services. We have a new corporate identity and will be operating out of new offices from the centre of Newcastle."

Court Enforcement Services joint managing director Daren Simcox said: "Court Enforcement Services and Elliott Davies have built their businesses on similar values of individual client attention and performance.

"I am therefore delighted to welcome Malcolm and his team into our group. Our acquisition is part of our long-term strategy for growth."

Phoebus Software secures five-year deal with Atom Bank

Phoebus Software and Atom Bank have signed a five-year contract to work together to provide servicing across Atom's secured business lending proposition.

As a provider of a multi-channel, multi-product technology solution for loan servicing, Phoebus will also be providing account servicing for Atom's residential lending portfolios.

Phoebus and Atom have been working closely to deliver Atom's business lending platform within six months of agreeing the requirements, with the first applications now being processed.

Phoebus' software will give Atom's internal team the platform to originate loans for customers through intermediary lending. The implementation of Phoebus' software also includes interfaces and integration to support Atom's digital offering.

Craig Iley, managing director for business banking at Atom, said: "Servicing a business loan should be

simple, straightforward and add value to the customer's overall management of their finances.

"We chose Phoebus for the depth of functionality that already exists in their servicing platform and their willingness to work with us to adapt their system to support the innovative technology.

"Their partnership approach will allow us to continually improve the customer experience as we extend our app development to provide self-service capability for business loans."

ORDER2CASH AND BVCM JOIN FORCES

Financial software firm Order2Cash and credit management outsourcer BVCM have joined forces to launch an end-to-end business process outsourcing (BPO) platform.

The partnership will see the launch of a platform to manage invoice processing, from customer acquisition through to realising cash.

With their BPO proposition, the two companies aim to offer flexibility to businesses looking to upgrade existing financial processes.

By integrating back and front office tasks into a single platform, customers will be able to outsource most of their labour-intensive processes; while reducing payment timetables and gaining greater control of cash flow.

Frank Hoekstra, chief executive of Order2Cash, said: "Our aim is to create a single financial platform that caters to all aspects of a company's order-to-cash cycle, covering both internal and external procedures. "

Order2Cash, formerly Anachron, provides a solution geared towards accelerating the order-to-cash process. The new BPO proposition will extend that reach further.

Hoekstra added: "With our BPO proposition we will be able to assist our customers with an initial cleanse of all their data and give them the tools and reports they need to quickly identify, rate, approve and on-board customers. We will empower them."

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Cross-sector regulation: Convergence or contrast?

*The jury's out on whether the regulatory frameworks for the water, energy and telecoms sectors will ever converge fully. While suppliers are seeing a level of confluence, **Marcel Le Gouais** sought answers from the regulators themselves*

Will the regulatory systems imposed by Ofwat, Ofcom and Ofgem, ever start to coalesce comprehensively? It's a debate that has hung around for at least two years and privately, some suppliers might tell you they're seeing the seeds of such a trend.

The Financial Conduct Authority's (FCA)'s regime is viewed as a benchmark, but Brexit may have just shrouded any prospect of convergence towards it, in a thick cloud of uncertainty. Here's what the regulators had to say about their current models.

OFGEM

Of all three sector regulators approached by Credit Strategy, Ofgem gave the strongest indication of a move towards a system characterised by principles and consumer outcomes.

A spokeswoman for Ofgem said: "Ofgem is re-thinking the way it regulates the retail energy market. We recently set out our plans to rely more on principles in the way we regulate the domestic electricity and gas markets. As part of our plans, we are exploring a principles-based approach to vulnerability.

"Under this approach we will maintain and improve the current level of protection for vulnerable consumers. We expect suppliers to be accountable for customers who are in vulnerable situations. We will ensure that the current level of protection is retained in our move to principles, while enabling the market to better serve customers."

TCF for energy consumers

Ofgem emphasised that "suppliers are bound under their licence to treat customers fairly. They must also take all reasonable steps to ascertain a customer's ability to pay and must take this into account when calculating debt repayment instalments. This includes the value of charges recovered through a pre-payment meter."

As is widely known, disconnection due to unpaid bills should be a last resort and suppliers are prohibited from disconnecting customers of pensionable age in winter.

While the regulator has seen a substantial drop in disconnections, from 3,280 in 2004 to 233 in 2014, the number of prepayment meters (PPMs) installed for debt has been increasing. In 2014 around 60 percent of new meters were installed due to debt, with around 16 percent of these fitted under warrant.

Prepayment is in fact a priority area for Ofgem. One of its current areas of focus is pre-pay meters installed under warrant. The regulator concluded a consultation on initial proposals in February 2016 and will publish final proposals soon.

With regard to debt collection, energy suppliers and their agents are subject to general consumer protection law requirements which are relevant to debt collection practices. This includes laws which apply to harassment and misleading/aggressive behaviours.

While local authority Trading Standards enforce these laws, Ofgem can enforce them too where non-compliance harms consumers' collective interests.

Leading on vulnerablility

When asked if the work around vulnerability in financial services might be an example to follow, Ofgem only repeated its principal objective of protecting current and future consumers' interests. It did, however, refer to its own efforts around customer vulnerability.

A spokeswoman added: "Ofgem was one of the first regulators to put in place a Consumer Vulnerability Strategy (in 2013), which sets out our overarching aims to protect and empower customers in vulnerable situations."

Ofgem currently monitors energy suppliers' performance through its social obligations reporting framework. Reports are sent to Ofgem quarterly on numbers of disconnections, PPMs installed, and customers in debt and debt levels.

The spokeswoman added: "Crucially we recognise that vulnerability is about the situations which consumers find themselves in, rather than the individual, and can be transient or permanent. We know that people who are vulnerable may have multiple barriers to the market, and that they need complex and tailored support.

"Our approach has been embraced by other regulators, and has brought about important changes to the industry's approach to how it treats customers in vulnerable circumstances."

OFWAT

Broadly, water regulator Ofwat said it considers the FCA's handbook to be an example of best practice. As such, its updated guidance encourages companies to contractually oblige their recovery agents to follow FCA guidelines when acting on their behalf.

But on specific guidelines, Ofwat has made two notable changes in the past two years. Many will know the first – an update to its guidelines to allow debt collection agencies not licensed by the FCA to

recover debt for water companies.

Coming to a logical conclusion, it recognised that agencies specialise in water debt, know their customer base and cater collection methods accordingly.

Another update to Ofwat's advice was made after it came to light that banks were using misleading debt collection letters to recoup money from customers.

Ofwat wrote to all water companies about it and was "pleased to hear" many had stopped using in-house branded collection agents. Others agreed to consider how to make the link between the company and their collection agent more explicit.

A spokeswoman for Ofwat added: "We stay in touch with organisations, such as the Consumer Council for Water, that have a close working relationship with customers. This engagement enables us to keep our 'ear to the ground' for any emerging problems or issues that may require the involvement of Ofwat in the future."

The vulnerability agenda

Ofwat said it views tackling customer vulnerability as being central to maintaining trust and confidence in the water sector.

A spokeswoman added: "The FCA has done some great research in this area and this work helped to inform the findings and recommendations of our own focussed report on Customer Vulnerability, which was published in February this year. In the report we highlighted that our general approach to vulnerability has changed.

"Rather than talking about 'vulnerable customers' we should be considering the circumstances that can lead to customers being vulnerable. This position is in line with the FCA Occasional paper No. 8: Consumer Vulnerability, published in 2015."

Interestingly, Ofwat believes customers in vulnerable circumstances should not be treated as a separate group.

The spokeswoman added: "One of the key ambitions of our report is to encourage companies to try to provide flexible, bespoke and inclusive service arrangements as standard for all customers, including those customers in situations of vulnerability."

OFCOM

Despite its recent consultation on silent calls which could exert a huge impact on the debt collection industry, Ofcom seems unlikely to announce a sudden regulatory overhaul. That's based on what it's prepared to say on record, at least.

IT'S GOOD TO TALK

Ofcom has a programme of work to help consumers who face debt or are excluded from using communications services because of cost. This includes:

- Improving links between debt charities and communication providers to encourage them to be more responsive to the changing circumstances of consumers;
- Improving awareness of the most affordable deals. Ofcom has already published a consumer guide on managing the costs of communications and another about managing debt;
- Improving switching processes and an examination of whether there are any particular barriers to switching for low income consumers.

Perhaps this can be ascribed in part to its own research.

A recent study it commissioned shows that, of those people responsible for paying for communications services, a small minority (two percent) said they have been in debt or fallen behind on payments while trying to manage their telecoms costs.

Similarly, complaints to Ofcom that relate to debt tend to be relatively low in number, and often concern credit rating issues or a refusal to provide a service rather than existing debts.

Debt and disconnections

The regulator gave no indication to *Credit Strategy* that there'll be any deviation from its rules about debt collection processes for fixed-line providers. These are set out in General Condition 13.

The rules under this condition include an instruction to telecoms providers to "be proportionate and not unduly discriminatory," when a subscriber has not paid all or part of their bill.

A spokesperson for Ofcom said: "We monitor compliance with these rules closely. To date, however, we have not had the need to take enforcement action against any communications providers in relation to this.

"We could also take action against communications providers if debt collection practices violate general consumer law, but to date have not needed to take action."

There are no immediate signs of changes to these rules, but as in its February 2016 statement setting out conclusions from a strategic review of digital communications, Ofcom is now considering whether it should extend these regulations to cover the mobile market.

Ofcom said its statutory duties require it to have regard to the needs of vulnerable consumers and people on low incomes. The regulator has in fact produced a guide to help all consumers unable to pay to manage their debt.

This includes setting out how consumers can expect to be dealt with if a bill is unpaid and offers advice for consumers whose debt is referred to a collection agency while they are in dispute with their provider.

The guide includes examples of measures that communications providers can take for customers in genuine difficulty. These measures include:

* Proactively contacting customers who have paid their bills late to discuss ways of optimising their account, e.g. by changing the payment date or switching to direct debit;

* Allowing customers to move to a cheaper package;

* Reducing the monthly payments of customers who are in genuine financial difficulty to an affordable rate. This should take place as customers complete their debt repayment plan;

* Referring customers to debt advice agencies;

* Waiving part of the debt if the customer agrees to pay the remainder within 14 days and to pay the next 12 monthly bills in full and on time;

* Writing off balances if there is medical evidence that the customer's health means they cannot pay or are unlikely to be able to pay.

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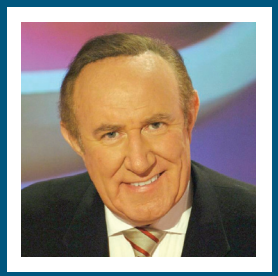

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ON THE MOVE

All the latest moves and new appointments within the credit industry

Sheila Wheeler
Money Advice Service

The Money Advice Service (MAS) has appointed Sheila Wheeler as director of UK debt advice.

Wheeler joins following a role with the Society of Local Authority Chief Executives (SOLACE) and Macmillan Cancer Support. She has also held chief executive roles for two local authorities.

Caroline Rookes, chief executive for the Money Advice Service, said: "I am delighted to welcome Sheila to the Money Advice Service. She has considerable experience leading organisations through periods of change and will be invaluable as we take our 2016/2017 plans forward."

Catherine Lewis La Torre
British Business Bank Investments

British Business Bank Investments, the commercial arm of the British Business Bank, has appointed Catherine Lewis La Torre as chief executive officer, effective from September 1.

Lewis La Torre joins from Cardano, where she is head of private equity. The appointment follows the announcement that Peter Wilson was stepping down as chief executive in March 2016.

Lewis La Torre said: "Small and medium-sized businesses form the backbone of the UK economy, although many companies continue to experience challenges in identifying the right financing options as well as in accessing capital. British Business Bank Investments' role as a facilitator of funding for smaller businesses can make a real difference for thousands of British businesses. I am looking forward to working alongside an experienced and dynamic team that has been charged with this important task."

Sam Younger
Marston Holdings

Enforcement firm Marston Holdings has announced that Sam Younger CBE has joined its independent advisory group. The group monitors Marston's ethical agenda and its corporate culture. Young, who becomes the group's seventh member, has extensive experience of public service and the third sector, having held positions including chief executive of the Charity Commission; chief executive of Shelter; and chair of the Electoral Commission.

Younger said: "Recovering money on behalf of taxpayers is an important social function, and it is vital that this work is undertaken responsibly. Marston's Advisory Group is an important part of its governance framework, and I look forward to engaging with both advisory group colleagues and the business over the term of my appointment."

Michael Healy
Kingston Smith

Kingston Smith & Partners, the corporate recovery and insolvency arm of accountants Kingston Smith, has appointed Michael Healy as a partner in its St Albans office.

A licensed insolvency practitioner, Healy brings more than 22 years' insolvency experience, joining the firm from a large recovery and insolvency practice.

Ian Robert, partner at Kingston Smith & Partners, said: "Michael's extensive experience and strong contacts will be a great asset to our team and strengthens our existing insolvency offering. We are delighted to welcome him to the partnership."

The firm has also announced the promotion of Ryan Davies to licensed insolvency practitioner.

Davies joined the firm as a trainee in 2005 and obtained his insolvency qualifications in 2010, before being licensed to take appointments earlier this year.

Robert said: "Ryan's loyalty and technical expertise are a huge asset to the firm. We are delighted that this promotion will give Ryan the opportunity to develop his expanding south east client base further."

Angela McClean
Credit Services Association

The Credit Services Association (CSA) has appointed Angela McClean as its new general counsel.

McClean will work closely with the head office team, and members of the CSA, to offer legal input into membership guidance and regulation and consultation responses.

She has spent the majority of her career working at insurance and financial services companies including Aviva, the Automobile Association, and Royal & Sun Alliance. Most recently she headed the legal department for Homeloan Management, an outsourced mortgage servicing subsidiary of Computershare (an Australian-owned financial administration company).

Ray Lowrey
Bibby Financial Services

Independent business funder Bibby Financial Services has appointed Ray Lowrey as UK risk director. Lowrey joined Bibby 15 years ago and has since held a variety of roles with the financier, including operations manager, head of operations, business director and – most recently – deputy risk director. His appointment follows Ian Ramsden's appointment as group risk director.

Lowrey said: "When I joined Bibby in 2001, I knew it had huge potential to grow into the leading funder it is today. 15 years on, I still have the same energy and enthusiasm for this fantastic business.

"First and foremost, we're a relationship-based funder and this means that we have a unique risk model, offering both flexibility and adaptability."

Sharon Witley
UHY Hacker Young

Business advisory firm UHY Hacker Young Manchester has appointed Sharon Witley to its turnaround and recovery (T&R) team. Witley will work closely with Nick Hancock, head of turnaround and recovery at UHY Hacker Young, Manchester.

Michael Wasinski, managing partner at UHY Hacker Young, Manchester, said: "Sharon is a talented professional who will complement and enhance the core T&R offering that we house in Manchester. We are all delighted that she is joining us, and warmly welcome her to the team."

Graeme Port
Encompass Corporation

Technology provider Encompass Corporation has made a number of appointments to its team, bringing the total number of staff to 32 in the UK.

Former Equifax manager,

ON THE MOVE

All the latest moves and new appointments within the credit industry

Graeme Port, joins the Glasgow office as data products manager while Abigail Smith has joined as marketing and events co-ordinator.

In the firm's London office, four field sales advisors have joined Encompass and Natasha Miller, formerly a manager at Workshare, has joined as professional services product manager.

Wayne Johnson, founder and chief executive at Encompass, said: "Since the company's inception, we are delighted to report that the business has grown from strength to strength, and this is reflected in the calibre of the staff we are recruiting.

"We employ staff who thrive and grow in our innovative work environment and they respond by creating products that help our clients take advantage of new market trends."

Jeremy Uphill
Secure Trust Bank Commercial Finance

Secure Trust Bank Commercial Finance has appointed Jeremy Uphill as portfolio and structuring director and Tony Young as regional sales director.

Uphill joins from Barclays, where he spent 32 years working across the personal and corporate banking and asset-based lending (ABL) divisions.

Young joins Secure Trust Bank with more than 16 years' experience in asset based lending roles at companies including IBM, NatWest, and GE Capital. Most recently, he spent four years working for Shawbrook Bank Business Credit, specialising in asset-based lending and structured finance deals.

John Bevan, managing director at Secure Trust Bank Commercial Finance, said: "They will both be integral to Secure Trust Bank's offering."

Richard Steele
BCRS Business Loans

Midlands-based business lender BCRS Business Loans has appointed Richard Steele to its business development team for Birmingham, Leicestershire, Coventry and Warwickshire. Steele has worked in the financial services sector for more than 13 years.

He said: "For the past 10 years I have been working closely with a range of local businesses at one of the UK's leading banks, as both a relationship manager and business development manager."

Steele added: "Throughout my career I have supported businesses with an annual turnover of less than £250,000 right up to those recording over £10m. This move seemed like a natural progression; I want to be able to say 'yes' to local businesses that have solid business plans demonstrating growth potential."

BCRS also recently secured FCA authorisation to lend to sole traders.

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LOWELL GROUP

The Lowell Group takes its monthly look at some of the key economic indicators

FTSE 100: This closed in May at 6,230.79 points, down by 0.2 percent compared to the end of April.

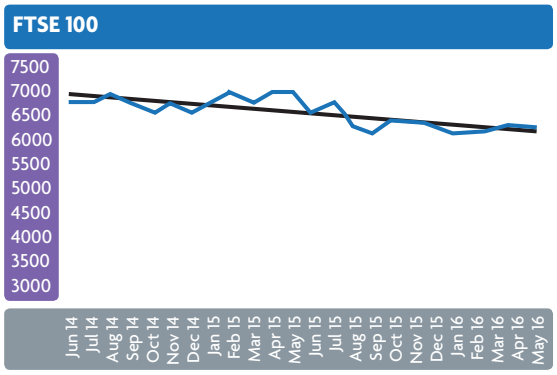
Consumer Price Index: According to the ONS, the CPI rose by 0.3 percent in the year to May 2016, unchanged from April. This continues the position seen since the beginning of the year.

Crude oil prices: The average weekly spot price rose to $47/barrel in May, up from $41/barrel in April.

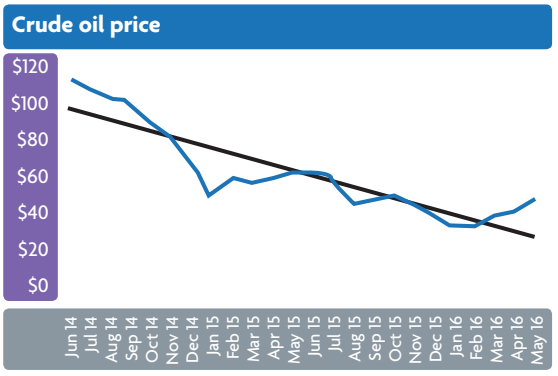
Unemployment: According to the ONS, there were 1.67 million unemployed people in the three months to April 2016, down 20,000 from the previous quarter and 148,000 less than a year earlier.

House prices: Data from Halifax shows house prices in the three months to May 2016 were 1.4 percent higher than the preceding three months. The annual rate of increase was unchanged at 9.2 percent.

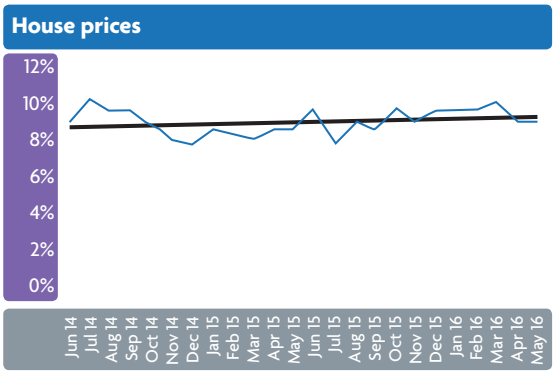
Retail sales: The ONS said the volume of retail sales in May was estimated to have risen by six percent year-on-year.



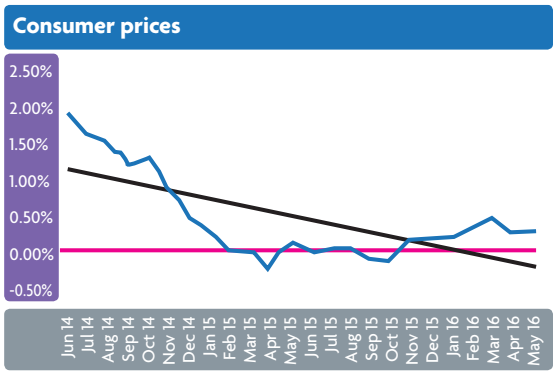
Source: Digital Look



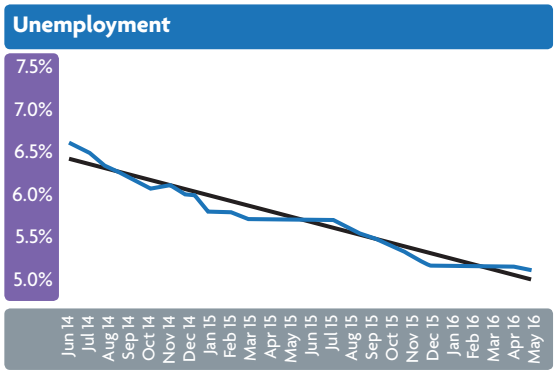
Source: Energy Information Administration



Source: Halifax



Source: Government Statistics



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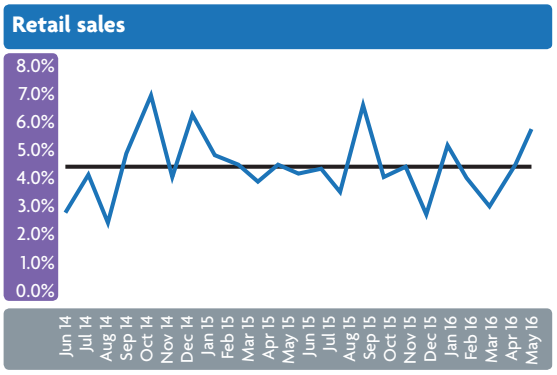

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