

Which debt collection agency should we use?

Tough times encourage people to set up debt collection businesses – I know of at least three New Zealand finance companies which are now also advertising collection services, and no doubt there are many other newcomers to the game. The barriers to entry are almost non-existent. Crimes of violence or dishonesty may bar you from being a repo agent, but they don't stop you collecting debts. I'm often asked: which collection agency should we use? This seems like a good time to put down some thoughts on the subject.

Note that I'm talking here about debt collection as it is usually understood: where a creditor collects its easier debts with a reasonable degree of effectiveness, but hands on the debts it considers largely uncollectible, and often writes them off at this point. If you've written them off, then anything an agency recovers is a bonus, so in one sense, there is not too much point in agonising over which agency to use.

How can we expect the newcomers to go?

I'm sure some will prove to have what it takes, and others will find that it's much harder than it looked from a distance. Collecting hard debt is a hard way to make money, and creditors will get smarter about collecting in-house as the recession continues. The debt that they pass on in a year's time will be worse.

Bear in mind that working on a commission which might be, say, 25% of money collected, a collection agency has to be a lot better at debt collection than its clients – who gave up trying even though they got 100% of the money collected. Of course, debtors sometimes pay simply because they fear a collection agency more than they fear an ordinary creditor.

What should you expect of a debt collection agency?

You should expect an agency to have more familiarity with and a better understanding of the practicalities of the civil litigation process than most creditors possess. Many creditors pass debts on because they want to go legal, but don't want to manage that process in-house. Things have changed in this area, however.

Twenty years ago, credit managers tended to give agencies a free hand to initiate legal action, and some of the major debt collection agencies made more money from legal documents than from commission. When creditors wised up, legal action dropped to a fraction of its former volumes.

Another thing some creditors look for in an agency is superior tracing, perhaps based on sources of information that they don't have themselves. Some unscrupulous collection agencies may have illicit sources of information that help it track down consumer debtors, and some of their clients will be well aware of this. Note that there was a case in Australia some years ago where a bank was badly embarrassed by its use of agents who were bribing civil servants for information.

At what age should you give debts to an agency?

Debt is at its most collectable when young. One of the main thrusts of collection agency marketing used to be to try to persuade creditors to hand debt over earlier. That's when the agency is most likely to succeed and therefore earn its commission. And, to be fair, if the

creditor isn't doing anything useful to collect the debt in-house, then it should be handed over to someone who can do the job better.

Is bigger better in debt collection agencies? Is longer-established better?

The track record of the people behind the business is always worth looking at. The longer they've been around, the more people will have an opinion about them. I'd be looking for "substance", which may come from longevity. It may also come from a newcomer to the industry putting in significant capital, or from a finance company building on its existing infrastructure (although the phrase "finance company" does have a slightly uncertain ring to it at the moment).

Software and telephony are important factors for agencies, so I'd be looking at those, particularly for agencies specializing in consumer debt. Other factors which may influence your view might include geographic location and local knowledge, or nationwide coverage.

You'd want to be confident of the accounting of any new business. This is not a good business in which to get the books in a muddle.

Another thing to think about – does the agency want your business? Are you their ideal client? Are you important to them, or do they just want big banks and telcos?

How do you judge agency performance?

I talk to a lot of creditors who appear dissatisfied with their debt collectors. I think this is often unfair. Remember, it's hard debt to collect and the commission structure usually means that they can't justify hours of effort on a particular debt, which may turn out to be wasted when the debt proves uncollectible.

The problem is: it's very hard to judge performance. If an agency collects 10% of the debt you give it, is that outstandingly good or shockingly poor? Who knows? Would another agency have done better? Who knows? The only creditors who can tell are very large businesses which can give a comparable load of debt to two different agencies, then see who collects the most.

So in practice, how do you decide if an agency is doing a good job? Many creditors assess performance on quality of communications from the agency – essentially, does the agency keep them informed, do they like their account manager and can they understand the reports they get?

That's probably as good a basis for selection as any other. Some agencies are particularly knowledgeable about particular industries, and provide add-on services like industry groups.

Creditors should be aware that if an agency goes bust, it's not unheard of for clients' money to be grabbed by the agency's bank. Get confirmation of the status of any so-called "trust account", and keep an ear to the industry grapevine.

And one last point: if your agency is collecting significant amounts of money, you should be asking why you're not collecting it yourself, in-house.

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