THE ROLE OF INTERMEDIARIES IN THE DEBT INDUSTRY

Just. Insights

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The appearance of an intermediary or 'middleman' can often lead to an inherent suspicion and questions about what value the intermediary delivers and at what cost and who pays.

Interestingly this suspicion quickly disappears, when the intermediary's value proposition is well understood. Who would question the value of Amazon, eBay, Airbnb, Google, Uber, or even more traditional organisations such as Sainsbury's, Autotrader, or Comparethemarket? All these businesses act as intermediaries.

The core element of any intermediary is acting as a "hub" for a network (or sometimes more than one network) - put simply the ability to bring together a group of suppliers and provide efficient and easy access to their products and services to a large group of buyers.

And by doing so, all participants should benefit, with the best intermediaries providing tangible value to both the supply and demand side.

How does this work in the debt industry?

The debt industry might seem to be a strange place for intermediaries – however, there are key areas where the benefits of a network can be realised, not just for creditors (such as banks, utility, telco, or government), not just for industry participants (such as debt collection agencies, litigation, and enforcement providers), but also, and perhaps most importantly, for the debtor or customer – that is the individual or business who may be struggling with resolving an outstanding balance.

1. Efficient and easy to use

By bringing together multiple suppliers and options in a standardised and consistent way intermediaries can present services to make it easier for buyers to assess and select the best option. The benefits of specialisms, new and innovative services, treatment and strategies can be more easily tested.

Using technology and automation, an intermediary's services should be easy to buy, easy to implement, and easy to use, thereby increasing the likelihood that the service will match the underlying need, without having to compromise with the status quo because trying something new is too difficult or complex.

Enabling innovation and competition should be seen as additive and complementary to existing processes - an intermediary can ensure creditors access the right debt services for the right situation, in turn meaning the customer will get the most appropriate treatment and a better chance of the right outcome.

I don't think anyone believes that one supplier can excel at everything and the role of the intermediary can drive healthy competition to deliver benefits to both customer and creditor.

2. Scale typically leads to cost efficiencies
Intermediaries can activate and bring the benefits of scale to all participants with network efficiencies and automation often leading to lower unit costs.

Standardisation of processes by the intermediary means that customised or expensive processes can be removed and replaced with common standards and lower failure rates.

Furthermore, the network typically drives increased innovation and competition between suppliers and these market benefits can be passed on by the intermediary.

By using an intermediary in the debt industry, creditors can often simplify procurement, more easily access competitive pricing and ultimately reduce the cost to serve their customers.

3. Increased capacity and improved resilience
With multiple and dispersed supply chains the intermediary's networks should be able to offer additional capacity fluctuations to more easily allow for unforeseen rise and fall in demand – without placing undue strain on any specific individual market participant.

Given the events of the last year, with the consequences and disruption brought about by COVID and lockdown, the debt industry will require supply chains and strategies that are more nimble and flexible helping creditors to be better placed to be able to adapt to an uncertain future.

For example, as government assistance programmes come to an end, increasing numbers of individuals and businesses will likely require financial support and assistance requiring creditors to quickly flex capacity.

From an operational risk perspective, a network of suppliers reduces individual supplier risk – such that the unforeseen departure of any one supplier should not disrupt or threaten the working of the network as a whole, with other suppliers able to step in to ensure continuity of service. Ideally, the option should exist to allow suppliers to be easily interchanged so new suppliers can be tested against incumbents to encourage continuous performance improvements.

4. Consistent high quality and improved customer treatment
Intermediaries should enable the application of a set of common standards to ensure all suppliers can achieve at least a minimum level of quality. The mere existence of the intermediary will often 'raise the bar' and improve the overall quality levels across the industry. Once normalised, participants will typically then go on to use further quality improvements as a key differentiator.

Nowhere is this more important than with the treatment of the most vulnerable customers, where a consistent approach and, ideally a single customer view, may be applied across the network will help ensure that the right actions are taken to deliver the best outcome for the individual customer.

Intermediaries in the debt industry - what next?
The charity debt advice sector is an excellent example of an intermediary model that unlocks the power of the network for the benefit of all participants, with particular care to ensure that individuals struggling with problem debt are protected.

The government's debt market integrator (DMI) framework has for the last few years been able to use its intermediary position to use third party data and analytics to improve the debt recovery performance for its public sector clients and help better apply the FCA's Treating Customers Fairly (TCF) standards on government debt.

More recently Just has been applying similar principles across debt recovery, litigation, and enforcement. As a market integrator Just has enabled better and more consistent treatment for consumers and businesses across a variety of debt recovery stages, as well as spear-heading innovations such as Virtual Enforcement, with the overarching aim to resolve problem debt earlier and with a better consumer experience.

This is not to say there are not very real challenges in the intermediary model. As an extra layer in the supply chain, it is imperative that the intermediary maintains an open network and continually promotes access to new providers who will drive performance improvement and further competition.

Intermediaries also need to pay close attention to their fees, which need to be set in proportion to the value they generate. Sitting as a network hub it is all too easy and tempting for intermediaries to become "rent-seeking", that is to take advantage of their position by taking too much or even increasing their slice of any value, without having proportionately increased the value of the whole for all.

The intermediary model should drive innovation, always seeking and rewarding improvement opportunities. Benefiting from the ability to observe the entire network and 'test and learn' will give the intermediary unique insight on what works and what doesn't. Learnings from one part of the network can then be applied more broadly, spreading benefits more widely and more quickly.

As such any additional value created should be appropriately distributed to all network participants. And in the debt industry this of course means that the question "What benefit does the customer see?" must be at the heart of every decision.

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About Arum and Just: we partner with creditors to optimise debt resolution strategies. From consulting support across a range of services via Arum - digital enablement/reducing cost to serve, dunning path optimisation, provisioning policy, platform and technology stacks – through to late-stage recoveries execution via Just.