BLS0001

Written evidence submitted by Equifax

Summary

- BEIS estimates that £17.2 billion of BBLS will not be repaid. Of that, £4.9 billion is due to fraud. The remaining £12.3 billion is due to losses where debt is not recovered from borrowers in financial difficulty or who refuse to pay.
- Analysis of how to minimise this fiscal cost of the BBLS has focussed so far on fraud and lenders' debt recovery. Attention should turn to what more the government itself can do to reduce the value of loans it writes off. As it stands, the government will not recover any BBLS debt after it pays lenders their guarantee - it will write the £12.3bn debt off in full.
- There is another option. Lenders are only required to follow their business as usual, standard recovery processes to claim their guarantee. Public bodies and regulated creditors go beyond such standard processes to recover debts like BBLS more effectively.
- This paper sets out how the government can apply those proven methods to collect more BBLS debt after it pays lenders guarantees. The approach is fair to taxpayers and fair to those in debt. Recovering an extra 5% of the £12.3 billion would be enough to recruit 8,000 more police officers.

Latest evidence on BBLS recoveries and forecasts for write offs

BEIS' annual report published in November 2021 included the latest available data forecasts for the final fiscal cost for the Bounce Back Loans Scheme (BBLS)[1]. It showed that, as at 31 March 2021:

- BEIS' total reported liability for BBLS was £17.2 billion.
- Loss to fraud was estimated at £4.9.
- The remaining £12.3 was the estimated loss from credit risk, where lenders will not recover debt from borrowers in financial difficulty or those who refuse to repay for reasons other than fraud.

As at 31 September 2021, the annual report recorded that:

- Borrowers had repaid in full £2.0 billion of BBLS loans (4% of the total value of BBLs).
- BEIS had paid £19 million (less than 1% in value) to lenders in settled claims on the guarantee.
- A further £1.3 billion of BBLs (3% of value) were in default and so "may result in claims being made on the guarantee once lenders have followed recovery proceedings".
- BBLs worth £10.9 billion (24% of value) were in Pay As You Grow forbearance.

The annual report also described the government's policy on how BBLs debts should be recovered and the fiscal cost minimised. It stated that:

- Lenders are responsible for collections and are subject to audit by the British Business Bank.
- Lenders "are required to follow their own recovery processes, whilst fulfilling their regulatory responsibility to ensure fair and consistent treatment of customers".
- BEIS' reported liability "has been measured as the present value of expected payments to reimburse guarantee holders for credit losses incurred less amounts expected subsequently to be recovered from borrowers". In other words, the government will not invest in any additional debt recovery of its own. This is in line with the process the BEIS Permanent Secretary described in evidence to the Committee[2].

To summarise, the annual report indicates that the government:

- Expects lenders to follow their standard recovery processes then claim £12.3 billion in BBLS guarantees.
- Has taken on £19m of debt already from BBLS lenders. A further £12.2 billion of debt is at higher risk - £1.3 billion from loans in default and £10.9 billion from loans in forbearance.

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[1] BEIS (November 2021) Annual report and accounts.

[2] Q63, Oral evidence: Fraud and Error, HC 1290, 29 April 2021

- Will not recover any BBLS debt itself. It will write debts off in full after it pays guarantees.

Government debt collection can outperform lenders' standard recovery processes

With the right approach, the government can outperform lenders' business as usual processes for debt recovery to collect some more BBLS debt after it pays lenders a guarantee.

While BEIS supports lenders with guidance on best practice for recoveries[3], in practice lenders' standard processes for debt recovery vary significantly:

- The many BBLS lenders are diverse businesses with different debt collection capabilities. They deal with different clients and regulatory expectations. They range from what the NAO calls "main banks" (such as Barclays and NatWest), "banks" (such as Starling and Investec Bank) to a group of "non-banks" (including Funding Circle and Tide Capital)[4].
- The process the NAO described for recovering overdue loans as agreed between the government and lenders in December 2020 gives lenders considerable discretion[5]. The NAO concluded that "each lender's recovery process will differ, for example, including when and how debt collection agencies may be used".

With such differences in lenders' expertise and processes, it is inevitable that some lenders will recover less debt than others overall or from certain types of borrowers.

Furthermore, the NAO highlighted features of the BBLS that limit all lenders' ability to recover debt[6]:

- "Borrowers may have limited incentives to pay back the loans, and with a 100% guarantee, lenders have limited incentives to seek a full recovery".
- Claiming on the guarantee "is not conditional on having completed the recoveries process – lenders are able to make a claim on the government guarantee 'within a reasonable time period' following the first formal demand date, or sooner, if lenders believe 'no further payment is likely'".
- The BBLS "does not include actions to recover outstanding debt after the 12-month time limit, for example by requiring lenders to continue recovery processes in exchange for a fee".

The government can do better. It can consistently apply proven methods that collect aged debts like BBLS more efficiently and effectively than lenders' standard processes. These methods, set out below, are already widely used by creditors in the public and private sectors. They are fair to those who are in debt and vulnerable. Based on figures from the most recent spending review, if the government recovers an extra £540 million (less than 5% of the £12.3 billion of non-fraudulent BBLS debt it expects to write off) then it can hire an extra 8,000 police officers[7].

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[3] BEIS (November 2021) Annual report and accounts.

[4] NAO (December 2021) The Bounce Back Loan Scheme: an update

[5] NAO (December 2021) The Bounce Back Loan Scheme: an update

[6] NAO (October 2020) Investigation into the Bounce Back Loan Scheme

[7] HM Treasury (October 2021) Autumn Budget and Spending Review 2021

Proven methods to collect aged BBLS debt efficiently, effectively and fairly

Once the guarantee is paid, whether or not a BBL debt can be recovered economically will depend on:

- What recovery process each lender followed for each debt.
- The circumstances of the organisation in debt. These may change over time.
- The ability to analyse the borrower and its debt then put in place the most effective, efficient recovery solution for that debt.

Equifax recommends a proven three step process the government can apply to outperform lenders standard recovery processes while treating those in debt fairly.

Step 1 - build the best view of each borrower and their debt
Start with the broadest dataset available from the lender. Where possible, that should include data on collections activity so far plus any disputes, vulnerabilities and forbearance.

Use external data to enrich your understanding of each borrower and their debt:

- Use credit bureau data on borrowers to better understand their debts, their financial health and how both are changing over time. For example, have the borrower's finances improved since it fell behind on a BBL? Or is the borrower paying back a debt to another creditor but not its BBL?
- Is the borrower using different addresses from the one the lender used for its debt collection?
- Isolate borrowers that are still actively trading from those that have gone insolvent, dormant or where a sole trader has died.
- Make use of scores that measure and summarise a borrower's propensity to pay their debt and scores that measure the risk of fraud.

Step 2 - segment the loan book and agree a strategy for each segment

- Use the data-enriched view to group together similar borrowers and debts. These segments will range from borrowers that are insolvent or in extreme financial distress, to those who are using and paying back other types of credit and have a high ability to pay back their BBL.
- Identify the best next action for each segment and borrower. For some, this will be to write off the debt. For many others, it will be a bespoke plan for further collection activity that includes a forecast of costs and likely recoveries.

Step 3 - execute each strategy with close control of quality and outcomes

- Use a broad panel of FCA-regulated debt collection agencies (DCAs) who specialise in delivering different strategies for different borrowers with different needs. For example, one DCA might specialise in working with people who are vulnerable and another DCA on cases of fraud.
- Harness the power of competition between DCAs to improve quality, recoveries and efficiency.
- Use an iterative, test-and-learn process where the results from early debt placements with DCAs inform new segmentation and future rounds of collection, or litigation where appropriate.

Controlling value for money
To control value for money, the government can apply this approach in stages. Step one will evaluate whether there is a business case for further investment in step two. Step three is a controlled process where the government can adjust debt placements with DCAs and its spend in real time based on how much it recovers, the quality of service and other outcomes. The approach can also be applied on a one-off basis, or repeated at regular intervals as there are changes in financial health of businesses and other factors that affect the efficiency of debt collection.

There are debt intermediaries, such as TDX Group, that specialise in debt data analytics and in managing panels of DCAs for the public sector and financial services firms. To further control value for money, the government could procure such a provider to deliver each step efficiently using a commercial model that will give taxpayers value for money.

Case studies: going above and beyond standard debt recovery processes

Large central government department - value for money collection on very aged debt
A large department wanted to improve collections of aged debts owed by UK businesses. Most of the debts had already been through a comprehensive debt collection lifecycle. To minimise waste, an Equifax company used external data to screen out 13% cases from the portfolio for compliance or value for money reasons, such as cases where the company had dissolved. We segmented the remaining accounts and placed them with DCAs using bespoke, controlled debt collection strategies. We established contact with 5% of the firms in debt, half of which made a payment. The department got a return on investment of £6 for every £1 it spent.

Major energy provider - proven approach rolled out to more and more debts
The provider focussed on 200,000 aged debts that had already been through its regulated and effective standard debt recovery process. An Equifax company used forensic data analytics and tailored strategies for each debt. We initially placed 50% of the portfolio with DCAs for further collection activity. The energy firm's return on investment was high and complaint levels low so together we agreed to place a further quarter of the debts with DCAs. The provider got full or partial payments on 50,000 debts.

Major telecoms provider - an effective, cost controlled, evolving approach
The provider had a portfolio of 1 million aged debts that had already been through a regulated and effective standard debt collection process. It worked with an Equifax company to place 360,000 debts with DCAs that offered the most promising returns on investment from further collection activity. From those 360,000 accounts, the provider was able to get full or part resolution on 26,000 debts (7%). We minimised waste by identifying debts to exclude. We also identified those where the customer was in financial difficulty so they could be treated appropriately. Results were boosted by monitoring unresolved debts and responding whenever there was a change in a customer's financial health, location or ability to pay.

About Equifax

Equifax is a global data, analytics, and technology company. In the UK, Equifax Ltd employs around 700 people in Leeds, London and Nottingham. TDX Group, an Equifax company, provides debt data analytics and DCA panel management services that improve recovery rates and deliver the right outcomes for people in debt. TDX group works with a wide range of clients in regulated markets and the public sector. In 2015, TDX Group established a joint venture with the Cabinet Office to collect debt owed to the public sector fairly and effectively. Known as Indesser, it has since recovered more than £2.5 billion for over 50 public sector clients. Equifax Ltd and TDX Group Ltd are authorised and regulated by the Financial Conduct Authority.

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