



A Different View

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Well, another couple of months have gone by and we are still all 'credit crunched' – but are we?

Perhaps we are no longer in a world that has been 'crunched'; perhaps it is more a case of being in a post-crunch world where what we perceive to be abnormal by historic standards will actually turn out to be the norm for the foreseeable future ...

The killer question for me is 'where does the crunch end and the future begin?'

Of course, if I had a first class degree in economics and was working as an adviser to the Government, there would be a couple of certainties that would fall out of that question. The first one would undoubtedly be a very long and detailed paper which would try to provide the answer. The second one would be a range of forecasts off the back of the paper that would all turn out to be totally wrong!

I'm not an economist, so I'll just give you my view, which is that for the foreseeable future this is going to be the world that we have to operate in. In all things in life extremism follows extremism - think about lots of wet winters followed by a scorching summer, or a prolonged dry period followed by lots of rain. There is a natural balance in life.

What is certain is that a period of extreme liquidity will be followed by a period of extreme tightening of liquidity. This, coupled with the axiom that the golden days are always behind us, makes for depressing times.

Within our industry this change is already being felt through a softening of prices in the debt purchase market as buyer liquidity and debtor liquidity both reduce. This is making some lenders reconsider their debt sale strategies as the prices they could once achieve become a distant memory. In addition, the ability to sell on a forward flow basis has become extremely difficult, with most sales being 'spot'.

As this happens there is the beginning of a move back to placing debt with contingent agencies, albeit on the contractual terms and prices of some years ago. If you think about it this is not logical; a reduction in debt sale prices must, in a balanced world, lead to an increase in contingent debt recovery prices to reflect the anticipated lower levels of liquidation but increased levels of activity to achieve them.

This is something I would ask all lenders to consider.

If there is not an acceptance that we are in a new world then there will be consequences for pursuing anachronistic pricing models. First, many agencies will collapse, increasing prices through less competition. It is likely that these will be the ones that are well controlled and act in a compliant manner. Those that have chosen to act in a non-compliant manner will survive by extracting increased recoveries, but then the sector will have become toxic due to poor behaviour being rewarded by lenders focused on one dimensional short term results.

There is a serious debate that needs to be had around the reward and control regime applied to agencies by clients if the industry is not to be placed in a very uncomfortable position.

The message has to be 'new world relationships between clients and agencies to meet the new world conditions'.

Stran's Snacks

Well, as regular readers will know, the twins are now three months old, and that



means that the restaurants of the UK have not seen as much of me over the last quarter as I get to grips with milk and all those other less mentionable experiences instead of the a la carte menu!

I could bore you with stories of Tesco's banning me from buying the quantities of baby milk I needed for reasons that were not clear while the person behind me in the queue bought 24 bottles of wine (we're sorted now by the way Sir Terry, so there's no need to call!). But I won't. Let's just say normal service will be resumed in the next column!

So, to finish, let's all just play the theme from Disney's Aladdin each night to remind ourselves of where the industry is at!

Until next time ...

There is a serious debate that needs to be had around the reward and control regime.

Garry Stran is Chief Executive of Clarity Credit Management and Chairman of Fieldcall.

Email: garry@claritycreditmanagement.co.uk

