When collections action has failed to persuade a customer to pay the arrears on their account, or the relationship with a customer has broken down, then the account will be transferred to debt recovery (sometimes referred to as late stage delinquency, late stage collections or recoveries). Transfer to debt recovery usually occurs when an account is between 30 and 90 days past its due date (1–3 months in arrears), but each lender has its own policy about when accounts should be transferred. Once in debt recovery the goal is to recover as much of the outstanding debt as possible in order to minimize the losses due to bad debt write-off. If a good rapport with the customer can be maintained then that is all well and good, but it is not a priority.

In the remainder of this chapter the role of the debt recovery department is discussed, together with the actions that the department can employ to manage delinquent debts that have been passed to it.

### 8.1 The debt recovery department

A typical debt recovery department is run as a specialist operational function staffed by people trained to deal with accounts in the mid-late stages of delinquency. One strategy is to make the debt recovery department a separate legal entity, with its own letter headings, contact details and so on. This gives the impression the debt has been passed to a third party debt collector, which provides two benefits. First, it sends a clear message to the debtor that their delinquency has reached a new stage and that it is being dealt with as a serious matter by a specialist team. Second, positioning debt recovery as a separate organization distances the lender from the negative connotations that some people have about debt recovery practices.

The main tools used in debt recovery departments are similar to those used in collections – as are many of the outcomes that result. Letters, phone calls, texts and e-mails are used to try and persuade customers to pay what they owe. One difference between collections and debt recovery is in the
tone and content of the communication with customers. There is a move away from conciliatory messages that are not intended to offend more than absolutely necessary, towards stronger language and notification of legal action. Some debt recovery departments may also employ debt collectors to visit individuals’ homes, but this is a costly and time consuming business. Therefore, home visits tend to be more widely employed by specialist debt collection agencies that are able to utilize economies of scale to make home visits a cost effective proposition.

The other main difference between collections and debt recovery is that in debt recovery decisions are made about what to do with the debt (rather than just how to collect the arrears). This could be to:

- Continue trying to collect the debt using the in-house debt recovery team.
- Refer the debt to an external debt collector. The debt collector will collect the debt on behalf of the lender, and in return will receive a commission on what they recover.
- Sell the debt to a third party for a proportion of the debt’s value. The difference between the value of the debt and the amount it is sold for is then written-off.
- Move to repossess property if the debt is secured. In some situations the permission of the courts may be required before repossession can occur. For example, in the UK repossession¹ of someone’s home can only occur after a court order has been obtained and a final chance to pay the debt has been given to the customer.
- Take legal action via the courts in an attempt to force the customer to pay. There are usually several different types of legal action that can be taken to recover debt, including various forms of bankruptcy.
- Accept a partial payment to settle the debt in full and write-off the difference. Partial payment of the debt may be accepted if it is believed that the customer has only limited assets and that the likelihood of further recoveries is low.
- Write-off the entire debt, taking no further action. This is a common strategy where debts are small, or if there is little chance of the debt being recovered.

Some accounts in debt recovery will be there due to fraudulent activity that has been missed by previous fraud screening. Therefore, one task is to identify which accounts are likely to be fraudulent so that effort is not wasted trying to collect on these cases.

Debt recovery is a labour intensive area of credit management. Even with the most technologically advanced debt management systems there is a requirement for people to contact customers, negotiate repayments, repossess property and manage the legal process should it prove necessary. Many