

BETTER BY DEGREES

By Kurt Obermaier of The Credit Services Association

Student debt are two words that sit together as comfortably as 'foregone' and 'conclusion'. But aside from the often hysterical coverage meted out on the subject, many credit managers within the tertiary education sector are well advanced in their dealings with the problem, and in working with external collections agencies to maximise the return of monies that would otherwise be lost in the system.

Debts incurred by students, or at least those that concern the universities or colleges to which they belong, tend to focus around two main areas: accommodation fees, and tuition fees. To these are then added what might be termed 'sundry debts', for example payment for field trips, library fines etc. The potential for debt is considerable; even if only a small percentage of tuition fees, for example, is not recovered, it can amount to several millions of pounds 'lost' to that university.

Most universities and colleges share common concerns, and indeed common solutions. Debt tends to be cyclical, peaking at the start of the academic year. To that end, collecting debts is not so much an issue of competence, more a matter of resource and it is simply not practical to have a big team chasing debt all year 'round when it tends to be concentrated at particular times. This is where outsourcing collections to an external agency comes into its own.

Taking an 'average' university or college charging an 'average' tuition fee of c£2,000 with for example 35,000 new students each year, that amounts to c£70 million to be collected. Even taking a modest figure of 10% of these students failing to pay in the first instance, the initial debt could be as high as £7 million. Without recourse to an external collections agency, there could be several millions of pounds 'lost' to the university, money everybody would rather see invested in attaining academic excellence.

Accommodation fees are also an issue. It is remarkable how many students don't seem to be able to pay for their Halls of Residence but don't seem to have the same problem in the second year paying an external landlord. In these cases in particular, the pressure that can be exerted by an external agency may be more appropriate in recovering a debt.

One of the biggest headaches the credit manager faces is when a student decides to 'opt out' without telling anyone. Students embark on the first Semester, change courses, and then somehow think they don't have to pay for the education they have received up to that point. It is when students don't formally withdraw that the problems start. Even so, there isn't much that cannot be sorted without careful communication.

In-house departments will usually take the first steps in recovering a debt, contacting students with letters and reminders. They might also send them e-mails and telephone – anything to get them to make contact. It's not in their interest to lose a student, so they try and be as accommodating as they can. Once they have exhausted all lines of communication, however, then it may look to use an external agency.

Debts from overseas students present a further set of issues. Fees are considerably higher, and non-recovery a very real risk. Having had their fingers burned in the past, many universities have considerably tightened the procedures in respect to overseas students and how their fees are collected. One answer is to offer a discount for paying upfront. If an overseas student is having difficulty paying, their debt tends to be more difficult to collect.

Most in the education sector believe that debts can be collected through their own endeavours; none of them, however, deny that debt is still an issue, and agree that employing an external agency, even in the last resort, is a useful option – certainly for those within the ‘won’t pay’ rather than ‘can’t pay’ camp.

No-one is going to persecute a student in genuine trouble, but there are those in the ‘won’t pay’ bracket where a ‘softly softly’ approach doesn’t work. In those cases, a letter or an approach from an external debt collection agency elevates the situation such that it becomes – in their minds at least – something more serious that they cannot ignore.

Amongst the sundry debts, perhaps the area of greatest common concern is the library. Library debts, through fines alone, can run into many hundreds of pounds. With books costing typically £20 - £25, a student with 10 books who not only doesn’t pay the fine but then walks off with them will owe in excess of £250. Not only does this financially penalise the university, but it also disadvantages other students.

Consistency is also a problem. Distinguishing between the genuine cases and the non genuine ones – the can’t pays versus the won’t pays – is as much of a concern to a university as it is in the commercial world.

The most important thing about selecting a third party collection agency, apart from the fact that they should be members of the Credit Services Association, is to understand what they can do and what skills they have, and that they understand what you do. Some establishments like to work with several agencies, and benchmark and compare their services and share good practice.

It is also essential that they have experience of the education sector: they need to be sympathetic to, and have a clear understanding of, students and student debt, and the specialist techniques to deploy to get a result.