



Credit Services Association

## **FACT SHEET 2**

### **STARTING IN BUSINESS AS A DEBT COLLECTION AGENCY**

There is a general perception that running a debt collection agency will be easy and lucrative. This is wrong. Even large debt collection agencies are finding the market tough, with small profit margins and very competitive trading conditions. Consequently, it will be difficult for new companies to enter the market successfully. Contrary to popular belief economic downturns do not bring good news for debt collectors as the recession tends to lead to increased reluctance or inability to pay debts by companies and individuals alike.

#### **Start Up Costs**

Many consider that minimal capital outlay will be needed to start the business.

Although it may be possible to work initially from home, it is more professional to have an office base.

A telephone and preferably a fax machine with a separate telephone line will be necessary. More than one telephone line will allow callers to get through when the first line is engaged. If callers can't reach you, they may well pass their business to someone else. All-in-one fax, telephone, answer-phone with occasional photocopy facility cost from £150.

To maintain records, keep accounts and deal with correspondence, a PC is a great asset. A basic computer with word processing facilities and a printer can be bought from around £600, but prices vary depending on the functions needed.

The cost of all relevant insurances which may include cover for libel and professional indemnity, running expenses such as postage, telephone, office rent, electricity, rates etc must be taken into account.

Above all, potential agency start-ups will need sufficient capital to fund their owners' livelihood during the initial period.

A car will be necessary.

Most people starting in business as a collection agency underestimate the time it takes to gain enough new clients to fund themselves and their business. It is recommended that a thorough business plan is made at the outset to cover the first three years of operation. Owner should consider whether their focus will be towards consumer or commercial debts, although working in both areas is quite possible.

#### **Operation**

The agency should be streamlined and efficient, with the ability to assess and prioritise debts. It is essential to have a clear contract with clients and a good system for mailing and chasing debtors. Effective new client sales and customer service procedures are necessary. Good and effective banking facilities should be negotiated.

## **Training and Qualifications of owner and personnel**

Debt collecting is an involved and complex process. A good knowledge of legal regulations and an understanding of business practices is essential as is an understanding of accounting practices and credit control procedures. Advice should be sought from a competent solicitor and accountant when setting up the business to cover the requirements of law and good business accounting.

Personal qualities of the owner/manager will include confidence, good organisational skills and ability to sell to prospective clients.

## **The Market**

Any business giving credit or running accounts is likely to be owed money beyond its normal credit terms. Debts can be owed by one business to another or debt owed by private individuals, for example, credit card companies, mail order catalogues banks, etc.

Increasingly, Local Authorities, Public Utilities and Health Authorities are using agencies.

Most credit grantors will, in the first instance, chase debtors themselves. Larger Companies will have an established credit control policy and a dedicated department. Smaller companies are unlikely to have this facility, and credit control will be done on an ad hoc basis. Small companies find it harder to recover debts, as staff have other tasks to perform.

Many companies are out sourcing a small or larger part of their debt portfolio. However, larger credit grantors increasingly are creating "In-house" agencies for their own and external debt work reducing the work available to "Third party" agencies.

## **Competition**

There are a number of industry leaders plus many small to medium sized agencies. Yellow Pages and other local trade directories will give details of these. Competition may also come from solicitors who have increasingly involved themselves in debt collection on behalf of their clients. Factoring is part of the same market and poses competition to debt collection agencies as prospective clients may choose to assign their debts on to factors.

## **Promotion**

The best way to maintain and attract new business is to build up a portfolio of satisfied clients. The most effective advertising will come from satisfied customers.

Direct mail, telephone and personal follow-up are a means of building up the client base. Develop contacts with local business networks, e.g. local small business clubs and Trade Associations. This will facilitate meetings and allow personal acquaintance with small business owner-managers

You may wish to place an advert in Yellow Pages and other regional directories, such as those produced by the Chamber of Commerce. Membership of trade associations or relevant qualifications should be made clear in advertisements.

## **Charging Structure**

Payment for debt collection is varied. Most agencies will charge a percentage of debt collected, However, agencies may also charge a fixed fee for their services and annual membership. Percentages charged will depend on the size, the number and the frequency of the debts. The age of the debt may affect the charging structure. The older the debt, the more difficult it is to collect and therefore the charges will be higher. Higher rates also apply to second and third placement debt.

Some agencies will buy debts on a discretionary basis.

Collected money is either paid to the agency or to the creditors direct. Agencies should have a separate bank account for collected client money. Flexible, regular accounting and reporting to clients is required, at least monthly.

## **Legal**

Under the Consumer Credit Act 1974 (and subsequent regulations), agencies are required to apply for a consumer credit licence, details of which can be obtained from the local Trading Standards Office or the Office of Fair Trading in London.

Agency owners should be aware of legislation which include the Data Protection Act, the Insolvency Act 1986, the Administration of Justice Act 1970 and the Consumer Protection Act 1987. The laws regarding harassment must be observed and the threat or use of violence to the debtor or their family is illegal.

Registration will be required under the Data Protection Act 1998.

Public Liability Insurance is required and Professional Indemnity Insurance Cover may be of advantage.

## **Trade Bodies and Standards**

The Trade Body of the industry is the Credit Services Association (CSA).

Members of the CSA must have had experience in the industry and been trading for a minimum of 12 months to gain associated membership and 2 years to gain full membership.

The CSA Code of Practice is the accepted industry standard and is endorsed by the Office of Fair Trading. It is a mark of credibility and competence and indicates a respectable reputation. Members must sign the code of practice and agree to abide by it.

Increasingly agencies are required obtain the international standard ISO 9002 (for service industries) in order to be able to tender for business from certain credit grantors.

*It may be useful to read this factsheet in conjunction with another CSA factsheet (01) - "Employment as a Debt Collector".*

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