



Analysis

Optimizing the Collection of B-to-B Utility Debt

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Biography

Lisa Phillips MCICM, is the Managing Director of Advanced Collection Systems (www.advancedcollection.co.uk). Lisa has been involved in credit management since leaving full time education. She started her career in a debt collection agency (DCA) where she gained experience and deep understanding in all areas of agency debt recovery. After this she worked for Statoil, a global energy company, now named Equinor. The knowledge and understanding of the energy and utilities sector she gained at Equinor enabled her to start Advanced Collection Systems (ACS) – a DCA specialising in UK utilities debt. Over the almost twenty years Lisa has been at the head of ACS she has grown the company into a fully regulated and accredited DCA.

Today ACS provides UK and overseas debt recovery and cash flow services for sole traders, SME's, and multi-national corporations as well as providing specialist debt recovery services to the UK's water, electricity, and gas utility providers.

Lisa is still leading ACS from the front. Lisa has put technology at the heart of ACS's debt collection process. A proprietary collection platform was at the core of the business when it was started and Lisa has constantly sought to ensure that ACS has the latest tools available. To equip it with the tools it will need to provide customers with competitive solutions into the next decade and beyond Lisa with her co-directors have identified the need to integrate big data and artificial intelligence based debt collection solutions into the business. As a result she has partnered ACS with AI development company Insight and the University of Hertfordshire in a KTP (Knowledge Transfer Partnership) awarded by the Department for Business Energy and Industrial Strategy (DfBEIS) to develop an AI based solution for debt collection.

Keywords Financial resilience, Account disconnection, Collections, Bad Debt, Ofwat, Ofgem, Early repayment
Paper type Research

Abstract

This article looks at how a utility provider's approach to debt collection and account disconnection in the business-to-business (B-to-B) market impacts its financial performance. It examines ways to optimize the process of recovering utility debt so as to maximize the debt recovered, reduce the utility provider's debtor days and bad debt charge in particular, and improve its financial performance in general. It reviews the downsides of the conventional debt collection and disconnection approaches, the advantages of changing to a process optimized for utility debt collection, and looks at the changes in team structure, responsibilities and communications, and the support infrastructure needed.

Introduction

Since 2014 the Financial Reporting Council¹ has required listed companies to give more detailed reporting of their financial stability. This, along with some recent failures in the utility sector, has highlighted the importance of monitoring the long-term viability of utility providers. The result is that both Ofwat² and Ofgem³ have



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been strengthening their regulatory frameworks to place more emphasis on a utility provider's financial performance and financial resilience. Good financial performance and financial resilience reporting are manifestations of good financial husbandry at operating level. In the utility sector the way a provider conducts its credit management and debt collection has more significance for good reporting than in other sectors.

Background

The utility sector has characteristics which challenge the process of credit management and debt recovery.

Restricted freedom: A utility provider does not have the same degree of freedom as firms in other sectors to manage their exposure to debt. In other sectors a firm can, at will, and without regulation, protect its financial performance by:

- Withholding further products and services until payment is received;
- Fixing a credit limit;
- Approving additional credit extensions in advance; and
- Activating any securities held such as a "Retention of Title".

In the utility sector regulations and the way in which a utility service is delivered mean these options are not available. A utility provider cannot easily withhold product by putting an account on-stop or withdraw access to credit. It is compelled to continue supplying a service which, unlike a physical product, is not recoverable.

Limited financial control: A utility provider does not have full control of its financial performance. Defaulting accounts have a hidden influence. A defaulting account can (effectively autonomously) extend the credit period given by the utility provider and increase its credit without limit and because the provider is compelled to continue supplying the service its cost of supply.

The influence of the defaulting account continues until disconnection from the service which can only be effected after the mandatory minimum Ofgem/Ofwat notice periods have elapsed and a warrant has been obtained.

A single defaulting account has a small impact on the providers financial KPI. However, when the effect of all defaulting accounts is aggregated the impact on the provider's business performance can be significant.

Regulated disconnections: Disconnection from the service is the only means a utility provider has to withdraw service and stop further credit extensions. Disconnection is a practical option only in the case of commercial accounts. Even so there are mandatory checks to carry out, multiple authorities to liaise with, and site based activities to complete before disconnection is carried out. At any stage in this process the debt may be repaid meaning these processes will need to be stopped.



Customer behaviour and perceptions: In an environment where the most urgent bill is paid first utility bills are often placed at the bottom of the priorities list. Business utility customers do not have the same priorities to pay a bill from a utility provider as a bill from some other product or service provider. The immediacy associated with a utility invoice is not the same as with invoices from other suppliers. In part this is due to the knowledge that to remove the service requires a physical intervention on the part of the provider and this will take time to happen.

Many businesses have the false perception that the utility service is different from the other goods and services a business needs to trade. The utility service is often perceived not as an essential service, but as permanent resource that will continue to be provided.

Conventional approach for collecting live utility debt

Typically, a live utility debt (one where the defaulting account continues to use the service) is processed in much the same way as other debt:

- Defaulting accounts are passed to the customer service (aka credit management) team who send out reminders of unpaid bills.
- If an account remains unpaid it is passed to the internal debt management team or a debt collection agency (DCA) who attempt to get payment.
- If this fails the account is passed to the disconnection team and the disconnection process is started.
- After disconnection the account is passed for final billed collection

This is a sequential process.

Live utility debt value and the time to collect

A sequential process is okay if the firm can limit its risk and exposure to bad debt by denying credit or refusing to continue to supply goods or services. In the utility sector, which does not have this freedom, following a sequential process means the defaulting customer can use the service up to the point of disconnection. The longer it takes to collect the debt or disconnect the account, the larger the final debt becomes. For the provider, this means a weaker reported financial performance.

Time delays in collecting business utility debt

Ofgem has reported that the time between when a debt is passed to the customer service team and disconnection (TD1 in *Figure 1*) can be up to 180 days or 6 months. The time TD1 is only partly within the control of the utility provider.

The customer service (aka credit management) and live bill collection (aka debt collection) times are within the scope of control of the utility provider. However, the disconnection time is controlled partly by protocols set by the regulators and the courts.



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Figure 1: Debt flow in conventional debt collection

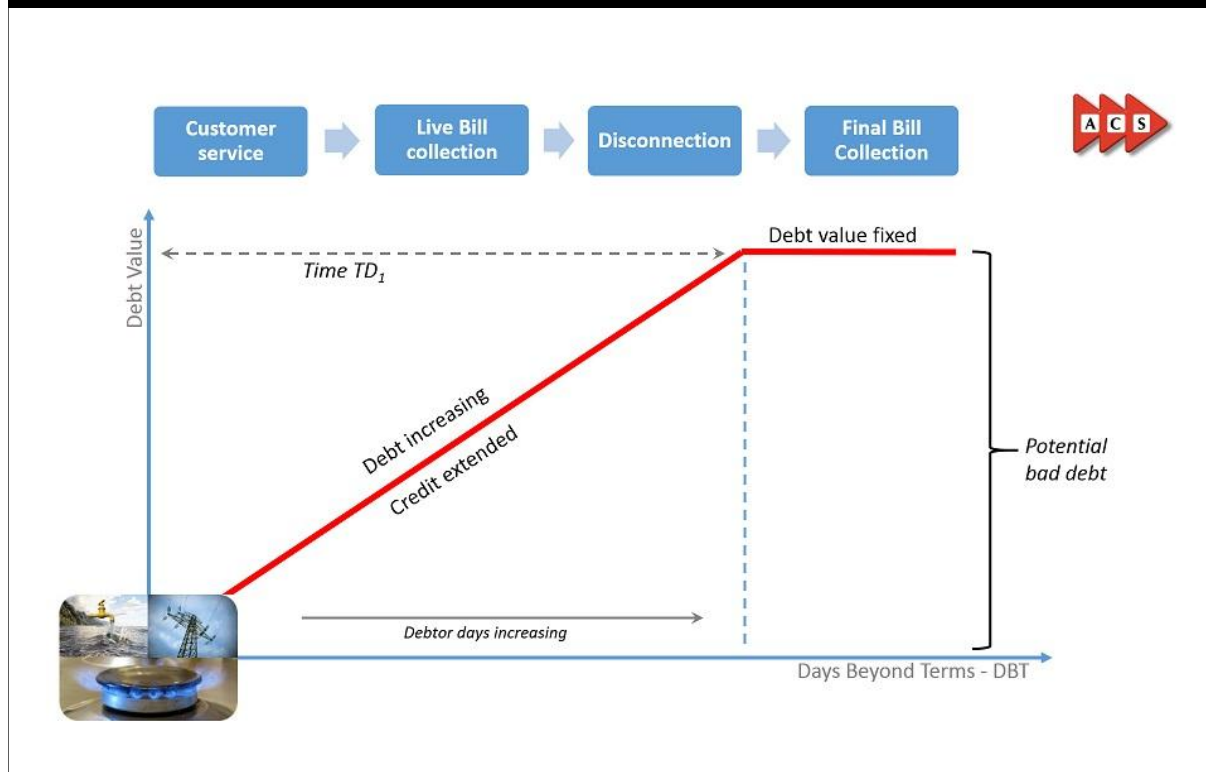
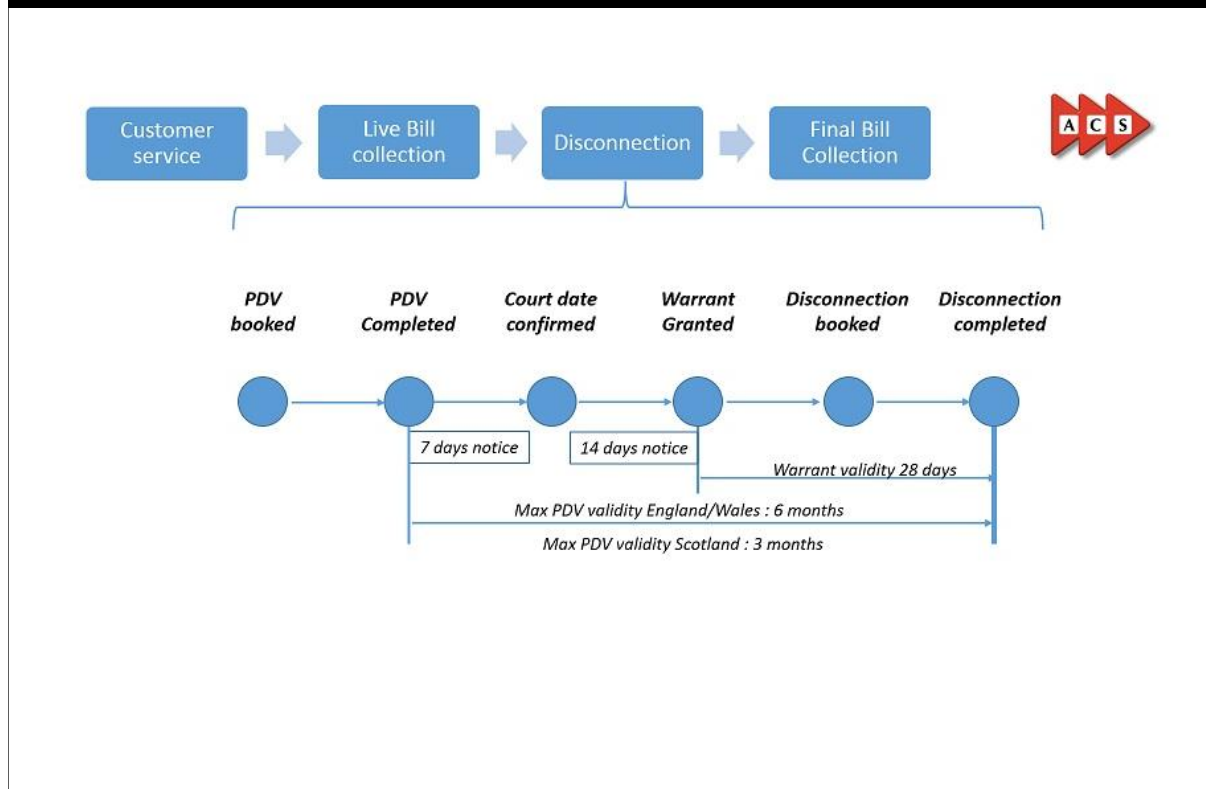


Figure 2: Mandatory notice periods in disconnection





Disconnection time: Mandatory notice periods and the need to visit the site twice, first to carry out a pre-disconnection visit (PDV) and then to make the actual disconnection, mean that, at best, disconnection cannot occur earlier than 21 days after the decision to disconnect has been taken.

The time to set-up and complete a PDV, make a second site visit, and obtain a warrant will extend this time further – for example, in remote areas such as Scotland arranging site visits for disconnection can be difficult. When added to the time already taken to attempt collection these times can increase the post invoice usage period significantly.

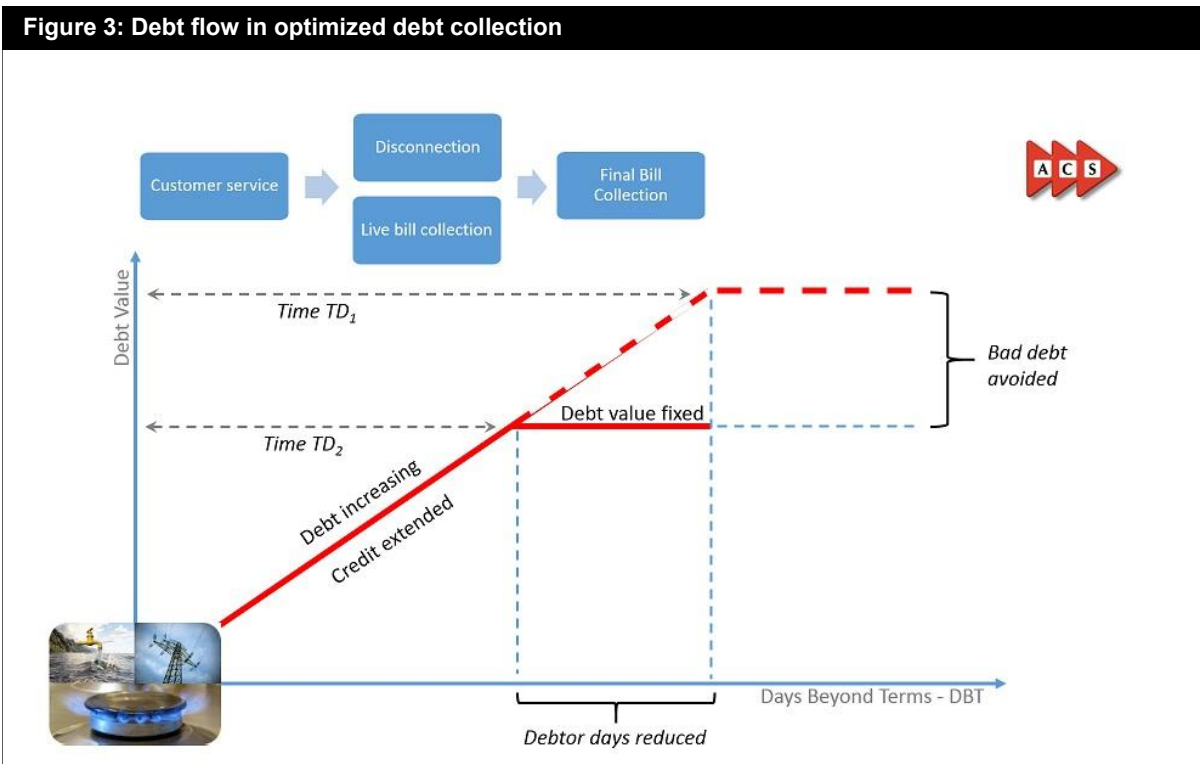
Ofgem/Ofwat disconnections: A PDV is required to confirm that there are no vulnerable persons on site and to serve notice of intention to disconnect – at least 7 day notice must be given. At least a 14 day notice of the date of the court attendance to get a warrant to disconnect must also be given.

A second site visit is required to make the disconnection or in the case of smart meters to comply with the Ofgem disconnection protocol.

Disconnection can only be made after the warrant has been issued and must occur within 6 months of the PDV if the property is in the UK or 3 months if in Scotland and within 28 days of the warrant being given.

Shortening the overall time needed for utility debt collection

The time between when the debt is passed to the customer service team and when disconnection is made can be shortened by “coupling” the live bill collection and disconnection processes (TD2 in *Figure 3*).





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Running the processes in parallel unconnected to each other or combining them into a single process will not achieve the best outcome.

The best outcome is achieved only when the processes are run side-by-side each continuing independently of the other but coupled together by the diary dates of the disconnection process and a protocol which sets out the scope of responsibilities of each team. It is this seamless coupling of the work of the teams which unlocks the latent hard and soft gains in the coupled process.

Hard gains

Hard gains come directly from the shortened time TD. These are a direct and tangible benefit. Accounts are disconnected sooner than they would have been using a conventional approach. For the utility provider this means:

- Lower final debt value
- Lower potential bad debt provision.
- Reduced cost of ongoing supply as a result of stopping usage by the customer.
- Improved key financial indicators such as debtor days and cash flow.
- Reduced expose to large amounts of doubtful debt
- Smaller amounts of bad debt provision

These are the hard gains of running the two processes in parallel. Seamless coupling the processes is not needed to realise these gains. However, in the absence of seamless coupling the likelihood of significantly shortening the time to collection or disconnection is reduced.

Soft gains

Soft gains arise from leveraging the disconnection during the collections negotiation. This is only possible when the work of the two teams is seamlessly coupled. These gains are intangible but have a significant impact on the timing of the repayment and hence on the utility providers cash flow and borrowings. Additionally, these soft gains are responsible for ensuring that it is more likely that the time to repayment or disconnection is minimized.

Prioritization of invoice: When confronted with the need to pay for the essential materials or goods needed to continue trading or to pay the utility bill the business customer often chooses to pay the supplier who is more able to stop supply.

Coupling the two processes and giving the collection agent the tools and information to be able to reference the status of the disconnection process gives an immediacy to the utility invoice which puts it on the same priority as other essential services.



Earlier repayment: There is a greater motivation to pay early. The collector is able to negotiate repayment against a background of a known disconnection date and pre-disconnection visit. Collectors can leverage the stages of the disconnection process to highlight the urgency to pay.

Changed customer behaviour and expectations: Planning a disconnection during repayment negotiations changes the perception of the customer. Disconnection becomes an immediate issue and the utility service is no longer perceived to be something which is a fixed resource and immune from disruption. The immediacy of the invoice is heightened and the expectation that the service will continue to be provided diminished.

Regulatory compliance: Encouraging early repayment can help providers achieve compliance with Ofgem or Ofwat rulings. In particular, in the case of debt prevention, early collection and/or disconnection prevents the customer accruing a large debt.

Achieving a coupled process

Coupling the processes is trivial in concept. However, in practice it requires across the board organizational change. Changing from a conventional to a coupled approach needs changes to the IT platform, team management, and culture.

Debt flow: When an account is passed to the live bill collections team it must be passed simultaneously to the disconnections team who can then start the process of arranging the pre-disconnection visit.

Activity scheduling: To ensure that the process is driven forward the application for a court date should be diarized to happen at a set time in the process. This ensures that the time to disconnection is not allowed to drift.

Coordination between the collections and disconnections teams is critical and needs to be controlled by harmonizing the collections diary and the disconnections diary. The collections team needs access to the disconnections diary to see the progress of the disconnections and the disconnections team needs to be fully aware of the payment status of the defaulting account.

Communications and responsibilities: For the coupled process to deliver the hard and soft gains the collections and disconnections teams need to follow a clearly defined scope of communication and responsibilities.

Only the collection team should manage the contact with the defaulting account. Advising the account of the planned disconnection and negotiating and arranging repayment.

The disconnections team deals with the field-based agents arranging site visits, warrant applications, and the utility provider's meter operator agent (mops) appointments along with other needed services such as locksmiths, shutter engineers or dog handlers.

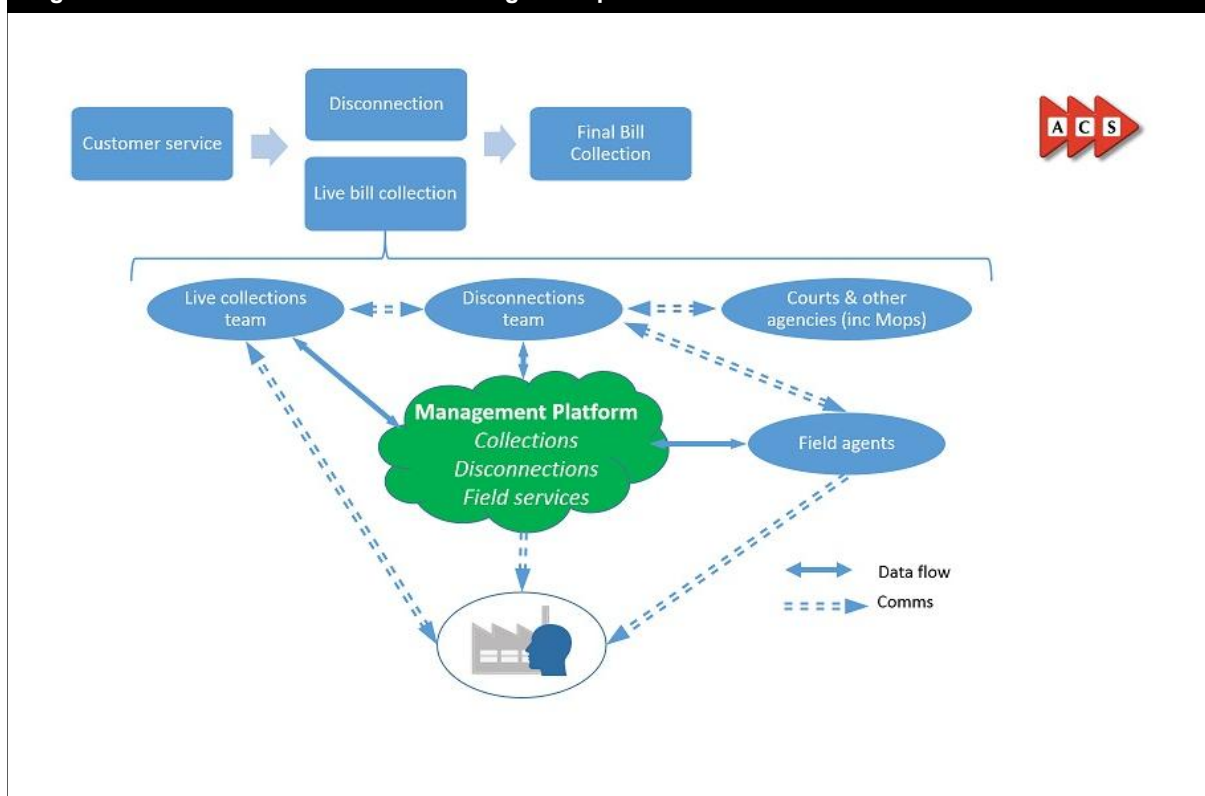


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If the collections agent receives payment at any stage of the process it is the disconnection team which stands down the field team.

Management and control: To control the coupled system a management platform is required which combines the features of a conventional debt recovery platform with disconnection and field services management solutions.

Figure 4: Communication flows and management platform



In addition to conventional debt recovery functions the platform must:

- Provide and manage separate collections and disconnections diaries
- Arrange the activities so that site visits, warrant applications, and the utility provider's meter operator agent (mops) appointment are diarized at required times along with other needed services such as locksmiths or dog handlers.
- Allow field agents to upload reports, documents and images resulting from site visits.

Proven to deliver results

Refined over almost two decades of work with utility companies the process is a proven scalable and adaptable solution for collecting debt and managing



disconnections for utility providers from across the utility sector, irrespective of their business models, and business volumes.

The coupled process has been used by ACS to collect debt for clients ranging from small start-ups to the top ten ranked B-to-B utility providers including providers from the Big Six. Named Collect+ by ACS it has been used to collect payment from defaulting live-billed accounts, and manage Ofgem/Ofwat compliant disconnections. The management platform, known as Colman, is a 24/7 online portal for utility clients and provides the control and coordination required to run a successful coupled process.

Reference

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