Association

The Case for Unifying Standards in the Recovery Process

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In 2018, the National Automotive Finance Association (NAF Association) joined forces with the American Recovery Association (ARA) and assembled a working group of banks and finance companies that created a baseline set of common standards by which recovery agents can be managed and evaluated. Jack Tracey and I presented these common standards at last year's Annual Non-Prime Auto Financing Conference. Here is a link to an article summarizing the standards that we created: npt.dealersbiz.com/publication/?i=511042&ver=html5&p=8

As the NAF Association looked at next steps, we found that there was a service provider that was not included in the conversation: forwarders. For those that don't know, forwarders enable lenders to effectively outsource their entire recovery process, and in some cases even the subsequent activities around asset disposal. The cost of assigning a repossession through a forwarder includes the fees to the forwarder and the recovery agent, often at a discount to the alternative of assigning directly to a recovery agent. Lenders have adopted the forwarder model at different levels – many use mostly forwarders for their recoveries, while many others use forwarders only for special cases, such as geographic locations where none of their existing recovery agents can reach.

Structural changes/technology

The process and economics for the recovery industry have changed. Using a forwarder, lenders can assign to a vast array of recovery agents and have that all managed by a single vendor manager. This configuration also allows lenders to dictate contract and compliance standards more broadly and have them accepted by any recovery agent that picks up the assignment. So, to the lender, this model can be a powerful proposition that can streamline internal operations and reduce operating expense in the servicing department, which for most financial services companies is where most of the operating expense lies.

Technology and communication requirements have evolved for the recovery function just as it has for all other facets of our overall industry. Recovery agents being dispatched by several forwarders and direct lender relationships found themselves utilizing many more varied systems and protocols in doing their work. Recovery agents find themselves at the back-end of an array of various unique requirements, technologies, and compliance standards.

Regulation

Regulatory pressures and changes rolled out by the CFPB and states' AGs have forced lenders to make material changes to the revenue model that recovery agents had relied on for years prior. Many fees and practices that are still legal and within compliance for the state, such as collecting fees directly from the customer (handling consumer payments) have been eliminated out of concern that the finance company cannot ultimately manage that transaction. For example, while recovery agents must manage consumer personal property according to an array of finance company mandated procedures and regulatory guidelines, the revenue from personal property storage fees may have been eliminated by the lenders.

Market changes

The pressures from regulation, technology, and third-party brokers has changed the economics for the entire recovery industry. Whether recovery agents are taking assignments through forwarders or staying strictly direct, revenues for recovery agents have dropped to less than half of what they were 10 years ago. As a result, we see only half as many recovery agents in business as we did 10 years ago.

The recovery "service provider" industry has also seen significant changes in terms of market consolidation. Recently, the following consolidations have occurred:

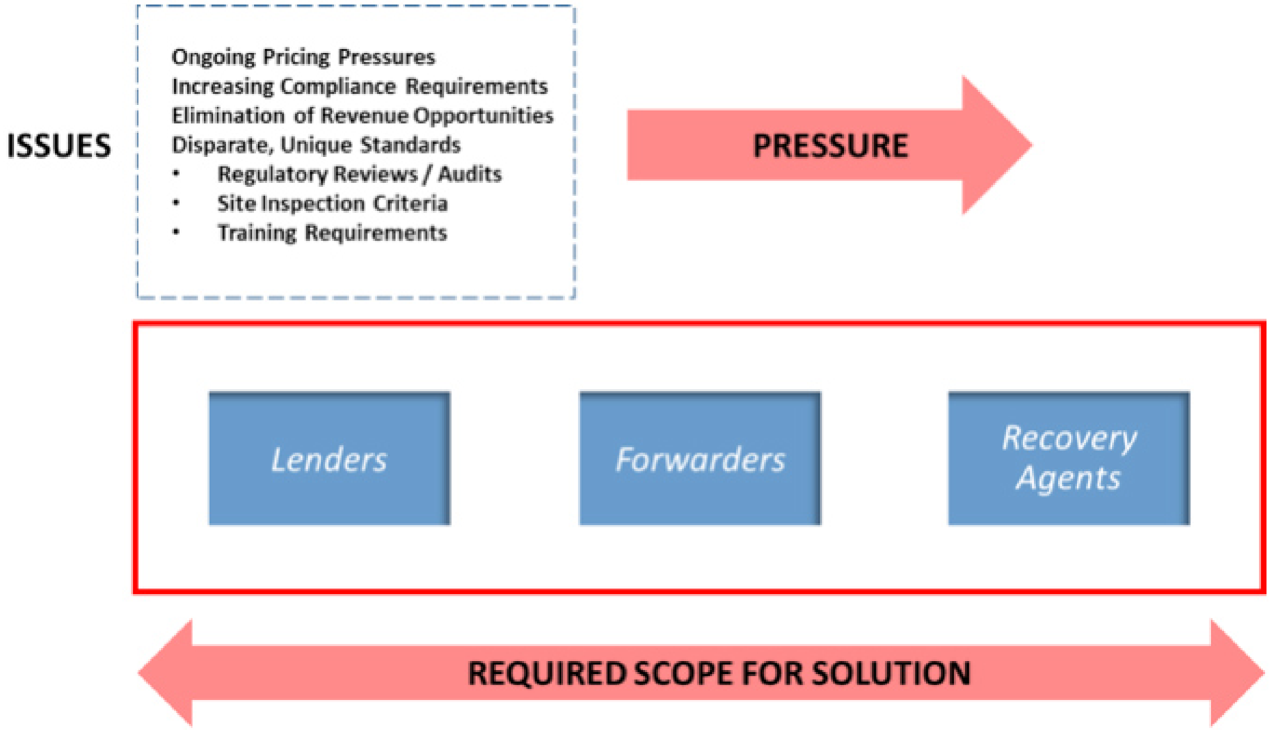
• MBSI consolidated RISC and VTS (training and compliance systems)

• CARS acquired by Primeritus

• KAR Auction Services, part of ADESA and PAR North America purchased Clear Plan

•DRN acquired by Motorola

The consolidation now underway may continue on to impact the major forwarding companies, ultimately resulting in fewer forwarders and recovery agents.



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The perfect storm

Lenders know all about the demands of delivering increased efficiencies, and managing the rising cost of compliance, all while trying to improve loan performance. The forwarder model was borne out of the need to assist with ameliorating these pressures. In large part, lenders and forwarders have operated with open lines of communications, and pushed requirements down to the recovery agents. Economic pressures driven by regulation, technology and third-party entrants are supplemented by the need for lenders to continually find lower cost providers. This is where we are today:

Take the example of a single lender, their associated forwarder (assume only one), and the downstream recovery agents associated with this relationship. This scenario would be the perfect candidate for a vendor management-based process improvement project (i.e. Six Sigma, or any other process improvement methodology). The problem here is that to the recovery agents in the scope of this example would have to embark upon Six Sigma projects for every one of their forwarder and lender relationships as well for them to experience wholesale efficiencies. In order for real change to happen, the kind of change that is required to deliver the substantial impact that is required, we have to operate as an industry in a boundaryless fashion.

Positive signals

Last year, the recovery industry saw a significant trade group consolidation driven by the ARA. This is meaningful for lenders and forwarders because there is more or less a single body with which we can work to implement these standards. During 2018 as well, the ARA and a group of forwarders met to open the lines of communication and acknowledge the issues and its impacts to recovery professionals. So, if there were ever a time for the lender contingent to rally around a set of common standards that can be pushed through the supplier network of forwarders and recovery agents – now is the time.

The NAF Association was invited to the most recent ARA Conference – the North American Repossessors Summit to facilitate a "voice of the customer" session of lenders. The session included nearly 60 participants representing 20 lenders, which I had the honor or facilitating. Overwhelmingly, lenders are in search of standardization and improved communication – both of which will improve with lenders getting behind a common set of standards. The great news is that we already have a baseline set of standards that we can use as a starting point. I was thrilled to get more people excited and on-board.

Additionally, at the ARA Conference, the NAF Association was invited to moderate a panel on "Unifying the Standards in our Industry", and the panel was made up of leadership in the forwarder industry. The message to recovery agents was:

1) acknowledgement of the issues (all outlined in the article above)

2) notice that we have lenders, forwarders, and recovery professionals all at the table – like never before, and

3) together we can own the overall process, and we can drive improvements if we work together

The session was extremely well received by an enthusiastic, packed house.

Call to action

The common, baseline standards have been set by the NAF Association and are nothing more than the minimum set of agreed-to criteria from 50-plus lenders (both NAF and non-NAF members represented). Getting the standards adopted by our members is a critical next step to getting these standards deployed through the value-chain of forwarders and recovery agents. Whether lenders use forwarders or go direct the standards are equally relevant. Without lenders getting behind these standards, the process fails to launch.

There are a myriad of ideas for streamlining and efficiency presently on the table that can drive substantial economic benefits to all parties throughout the value-chain. These will simply not be realized unless and until we as lenders get on the same page with standards. If we do not, we may be confronting a future very different from the one we know today, and that future could be sooner than any of us would wish to believe.

Joel Kennedy is chief operating officer of TruDecision. As NAF Association board member, Joel is passionate about growing and improving auto finance ecosystem. He has over 23 years' experience helping big banks down to start-up finance companies to build, grow, improve, and repeat. Joel can be reached at 240-308-2169 or joel.kennedy@trudecision.com.