

CHALLENGES FACING BANKRUPTCY AND DEBT COLLECTION SYSTEM IN NIGERIA

Presented at the Nigerian Office for Trade Negotiations' Workshop on Bankruptcy & Debt Collection in Nigeria

Abuja. May 18, 2023.

'Niyi Ajao HCIB, M.LoD, FICA
CEO, Digital Finance Solutions Nigeria Ltd
INED, CRC Credit Bureau Ltd



SCOPE

1. STATE OF BANKRUPTCY & DEBT COLLECTION IN NIGERIA
2. LOST OPPORTUNITIES
3. CHALLENGES
4. WAY FORWARD



DEFINITIONS

- **CORPORATE DEBT & CONSUMER DEBT**

- Personal debts that are owed as a result of purchasing goods that are used for individual or household consumption e.G. Credit card debt, rent, student loans, post-paid phone bills, auto loans, mortgages and payday loans

- **BANKRUPTCY**

- The quality, state or condition of not having enough money to pay back what one owes.
- Bankruptcy refers to the legally declared inability or impairment of an individual to pay its creditors.

- **INSOLVENCY**

- The legal process, by which a company is divested of the right to administer its property and business, on the ground that it is unable to pay its debt (winding up).
- The concept of bankruptcy and insolvency are designed to protect the honest but unfortunate creditor, as well as discipline if necessary, or punish the incompetent and dishonest debtor.

- **DEBT COLLECTION**

- The process of pursuing payments of debts owed by individuals or businesses or governments. Most collection agencies (debt collectors) operate as agents of creditors and collect debts for a fee or percentage of the total amount owed.



CONSUMER DEBT VS CORPORATE DEBT

- In over 25 years in the field of debt recovery in Nigeria, the most difficult debts to recover are a consumer or individual-owned debts.
- Recovering money owed by a limited liability company is not too difficult if the company is still doing business, except chronic corporate debtors who take advantage of the weak legal and value system to avoid repayment.
 - CAC records help a lot to track companies and their directors.
 - If the company does not respond to suasion after it has been located, a court action can be instituted.
- Nigeria needs to urgently transform to a modern 21st century credit-oriented economy for the benefit of producers, retailers, consumers, and governments.



CASE 1. The debtor had absconded from the client's house leaving over N6m in rent owed.

- a) An action was filed to recover the rent and got judgment when the debtor did not show up to defend the claim.
- b) Thereafter, a garnishee order was obtained to attach the debtor's bank accounts and served it on the banks where the debtor might have had accounts.
- c) The banks came back with a request for further information about the debtor as they had multiple accounts in the same name!
- d) The client was asked to provide information such as his phone numbers, email address, state of origin, bank verification number, national identification number, driving license, international passport, photograph, etc.
- e) The client only had the phone number and state of origin.
- f) It turned out that those didn't match up with what the banks had in their records and that was how the case ended. The debt has still not been recovered despite a subsisting court judgment and garnishee order.



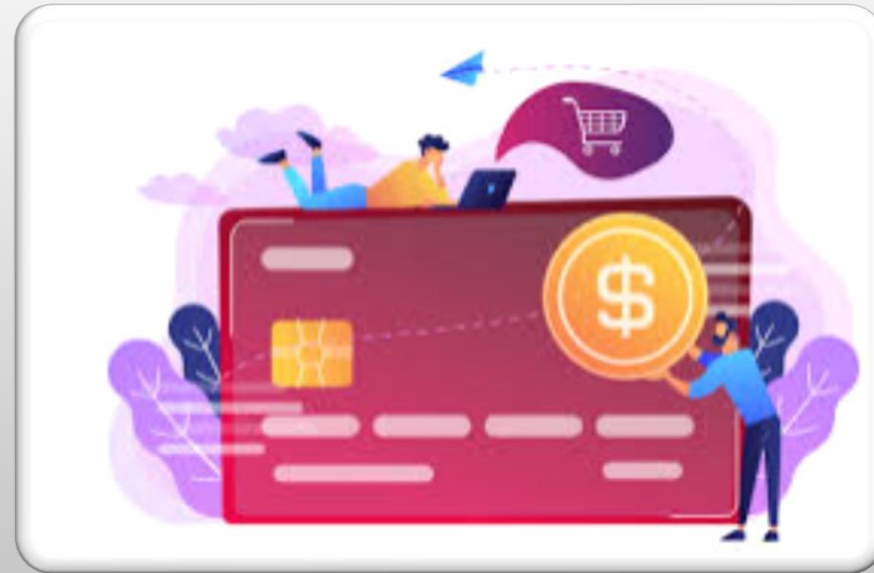
CASE 2. Private school owners in a particular state in nigeria

- a) A recent information gathering project results indicated that as much as N5bn was trapped as unpaid debt to an average of 3,000 private school owners that accumulated over the preceding five (5) years by parents who simply removed their children from the school without paying overdue fees and relocated without a forwarding address.
- b) Efforts by the school owners to get the parents to pay were unsuccessful and most of them had simply written off the debts.
- c) Most of these school owners were also deeply indebted to their banks and were barely able to meet up with payments.
- d) Extrapolate these figures to 36 states and the FCT and you will have an idea of the problem caused by unpaid consumer debt.



WHAT MAKES AN EFFECTIVE CREDIT INFRASTRUCTURE ?

1. Credit Bureau
2. Credit Ratings & Scores
3. Collateral Registry
4. Bankruptcy Laws And Resolution
5. Judicial System



Source: International Finance Corporation

METHODS OF DEBT RECOVERY IN NIGERIA

1. Publication of the names of debtors in newspapers as a means of threatening them
2. Using debt collectors (unconventional method)
3. Debtors detention
4. Realization of security
5. Debt recovery through use of legal practitioners and court process
 - Management of cases on fast track. A new rule in Lagos State in relation to civil procedure in high court states that, debt recovery matters must be concluded within a shorter time. This can be seen in Order 56 High Court of Lagos State Civil Procedure Rules 2012.



LOST OPPORTUNITIES

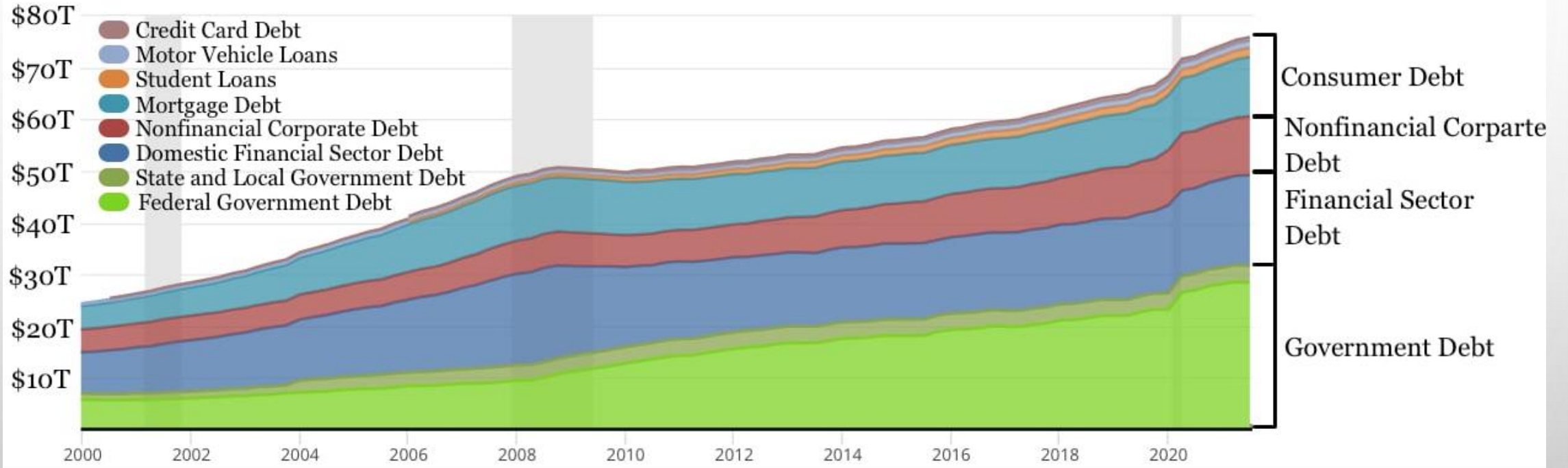
Research shows that there is a positive correlation between access to credit and economic growth and prosperity of nations. A consumer's ability to borrow money easily allows a well managed economy to function more efficiently and stimulates growth.

See earlier Case 2 – estimated 200bn lost to schools unpaid debts alone!

1. National economic development is stunted
2. Entrepreneurship and innovation is discouraged
3. Rise in unemployment
4. Low government revenue
5. Low ranking in ease of doing business rating



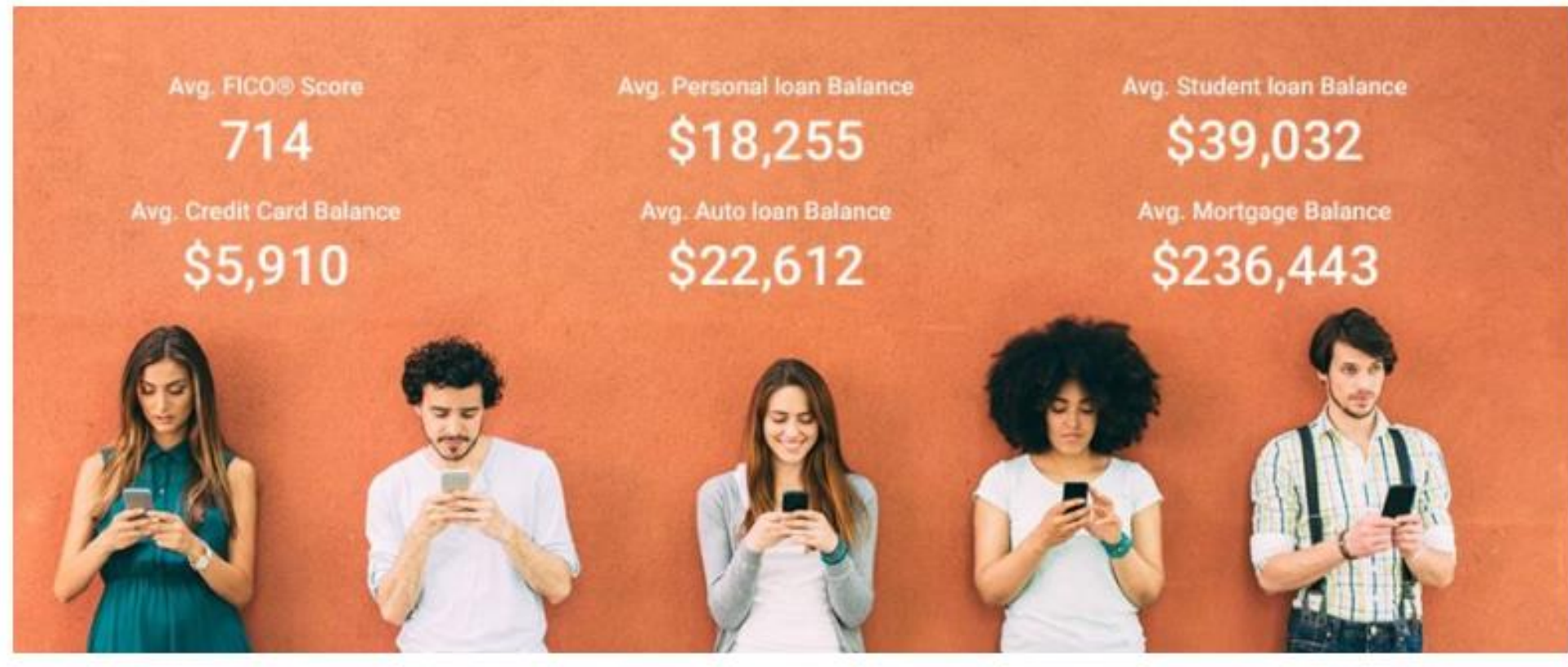
Debt in the United States



The 2016 financial position of the United States includes assets of at least \$269.6 trillion (1576% of GDP) and debts of \$145.8 trillion (852% of GDP) to produce a net worth of at least \$123.8 trillion (723% of GDP)

Source: <https://fred.stlouisfed.org/graph/?g=KYie>

The average debt balance of consumers in the U.S. increased by 5.8% to \$101,915 in Q3 2022, a \$5,544 jump, according to Experian data. Credit scores remained unchanged at an average score of 714.



Source: Experian

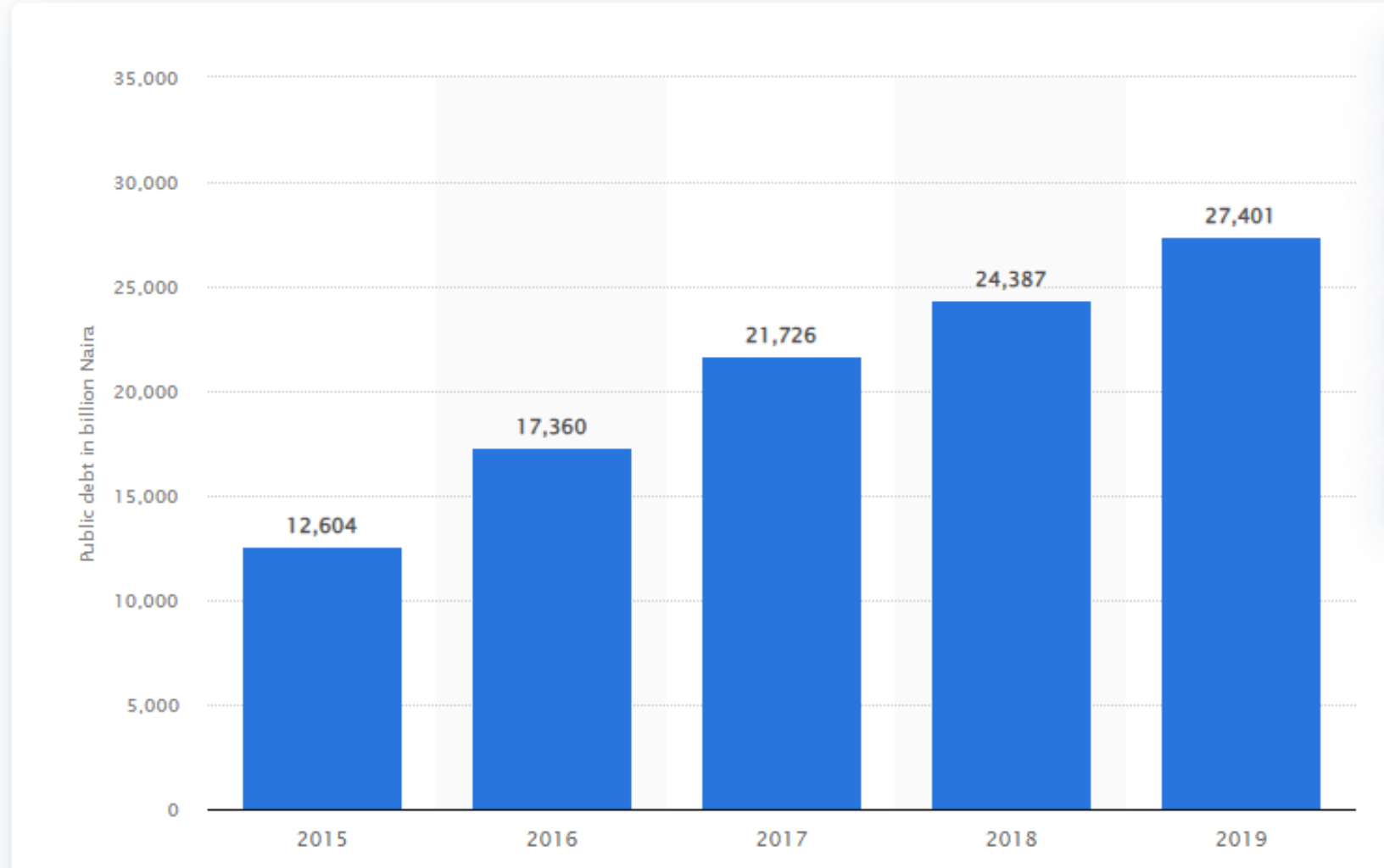
Change in Average Balance by Debt Category

	2019	2020	2021	2022	Change, 2021-2022
Credit card	\$6,239	\$5,315	\$5,221	\$5,910	+13.2%
Personal loan	\$16,378	\$16,458	\$17,064	\$18,255	+7%
Auto loan	\$19,408	\$19,703	\$20,987	\$22,612	+7.7%
Student loan	\$35,928	\$38,792	\$39,487	\$39,032	-1.2%
HELOC	\$44,923	\$41,954	\$39,556	\$41,045	+3.8%
Mortgage	\$204,315	\$208,185	\$220,380	\$236,443	+7.3%

Source: Experian data from Q3 of each year

Nigeria's total public debt from 2015 to 2019

(in billion Naira)



Source: Statista 2023

TOP CHALLENGES IN NIGERIA DEBT COLLECTION

1. **Little regulation in the collections industry**

- There is no requirement for collectors to be licensed. Consequently there are questionable characters and practices in the trade

2. **Poor record keeping**

- Tracking down debtors and resolving accounts is difficult, because of poor record keeping in Nigerian business and public registries alike.

3. **In-house vs third party debt collections**

- There is overreliance on in-house collection efforts, with little success
- Less engagement of professional debt collection agencies familiar with the legal process and rules.

4. **Weak bankruptcy laws.**

- The debtor is unduly protected. So, Bankruptcy act of 2004 needs complete overhaul.

5. **Lack of single unique identifier to ease the matching of subject profiles.**

- Currently the bureaux use multiple factors to match and merge credit profiles.



TOP CHALLENGES IN NIGERIA DEBT COLLECTION

6. **Weak laws and adjudication that prolong access to justice**

- Low speed of litigation - an average of 6-12 months to receive a judgment or 9-15 months if the debtor has a defense or civil action with a full trial
- Undue delay in enforcement of judgement

7. **Official secrecy and bureaucracy. Data privacy.**

- Too much red tape is involved in getting information from government offices
- Debt collection processes must comply with NDPR law.

8. **Low adoption rate of credit bureau tools, though a great number of debt collection firms are law firms, accountants and ex-bankers who should know.**

- Also low awareness of credit scores (derived from payment history, credit utilization, length of credit history, new credit accounts or requests and credit mix).

9. **Cost of recovery**

10. **The payments system challenge**

- Payments system problems cause debt to grow e.g. poor direct debit culture



INDIA'S DEBT COLLECTION CHALLENGES

Based in India, Clear Touch claims its customer experience platform is used by more than 1500+ enterprise clients around the globe, including top banks, financial institutions, fintech, utilities, healthcare institutions, collections, newspapers, telecom companies, BPO, etc.

1. Collect overdue with as minimal a dent as possible on customer experience, brand value, and compliance
2. Contactability of debtors itself is a challenge, especially with the debts becoming dated
3. Segregate debtors into buckets - wilful defaulters and people with temporary cashflow issues. This is happening sporadically.
4. Integration with multiple payment channels to make digital payments easier and more manageable. This is at a nascent stage.
5. The usage of voice bots hasn't become mainstream. This would help in collecting low-value payments quickly.

CLEAR TOUCH
powered by tcn



6. The ideal cost of collection that every collection agency aims for is about 1%. However, it always crosses 4 to 5%, discounting the right-offs.
7. The collection agents that you send for large value payments will have to be dra-certified
8. Regulations that stop us from calling any debtors before 8 am and after 7 pm, and the number of times you can try contacting them, whether or not they pick up your calls
9. Any minor infraction in customer experience gets escalated to the highest rung in our organization due to social media tagging
10. Banks gross NPAS dropped to a 7-year low of 5% in September 2022. This is a tough number to maintain as the number of low-value credits, EMI credits, and buy-now-pay-later schemes are launched.

CLEAR TOUCH
powered by tcn



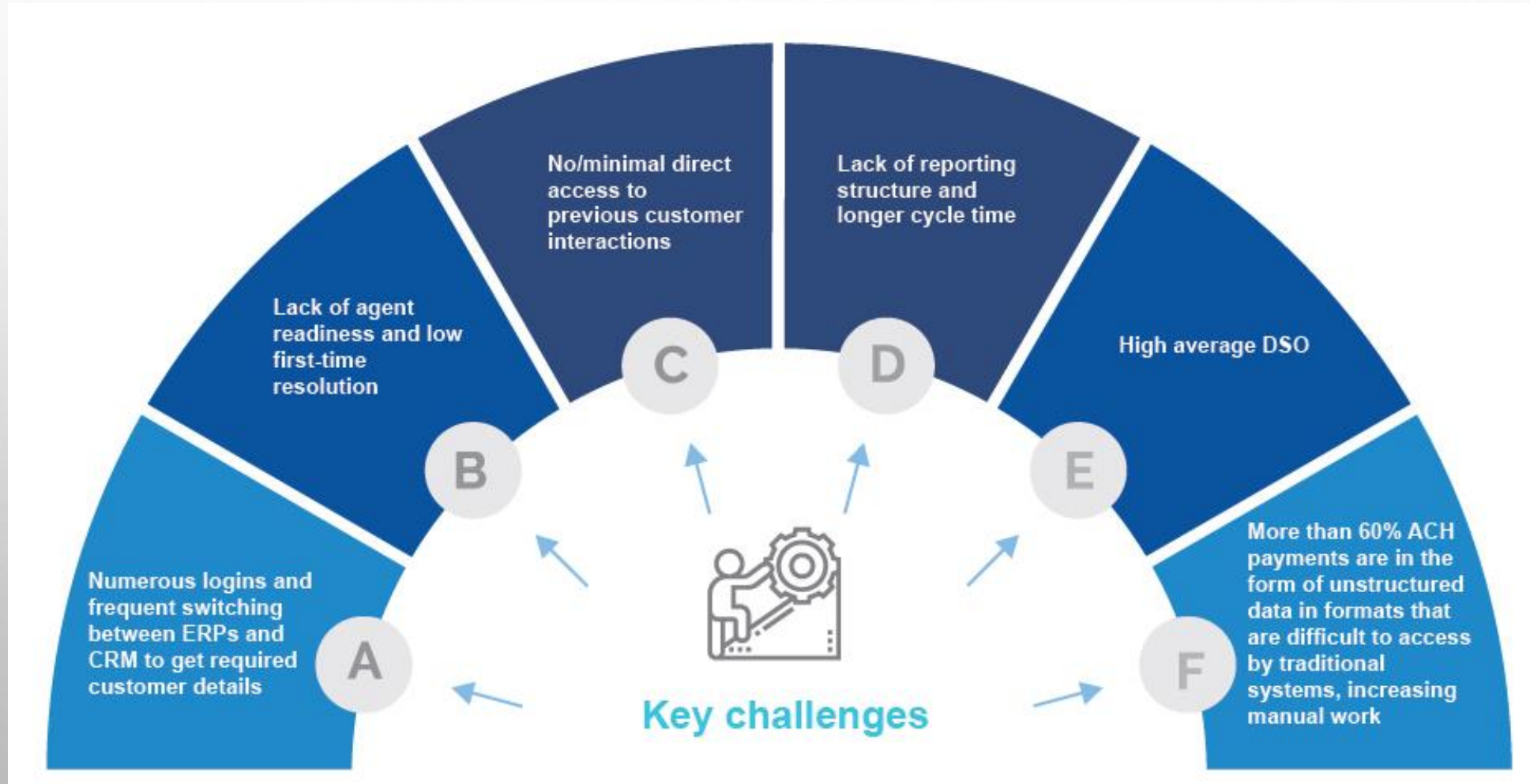
B2C COLLECTIONS CHALLENGES



<https://www.wipro.com/about-us/>

Based in India, Wipro Limited (NYSE: WIT, BSE: 507685, NSE: WIPRO) provides Debt Collection as a Service solutions. USD 10.4Bn FY22 Revenue. Over 1,400 active global clients. Over 250,000 dedicated employees. Present in 66 countries. Over 75 years in operation.

B2B COLLECTIONS CHALLENGES



WAY FORWARD

1. Lenders have to juggle the options available to realize the debts, primarily the late-stage debts - the more the age of the debt, the riskier it becomes as a right-off candidate.
2. More global debt collectors are leveraging technology to send reminders to people of their loans and quick ways to make payments.
3. Lenders need to collect more data from clients to enable better analytics
4. APIs also enable robust data submission and report generation
5. Improved customer relationship (KYC) leveraging CRM solutions, mobile apps. For example, CRC enables companies to constantly classify customers under risk buckets, identifying those who may begin to delay their repayments in the next 30 to 60 days.
6. Use technology solutions to enable swift collections, and entrench self-service options that improve repayment by debtors
7. Partnership with experienced local & foreign players in the field



EXAMPLE NO. 1

- I pay a monthly bill of 499 Rupees to my mobile service provider. Earlier, I used to set an alert so that I remember to pay this every month before the due date. Sometimes, when I travel, I miss paying it, and then they add a fine, which I pay the subsequent month.
- Now, with auto-debit, I don't have to set an alert, and the money gets automatically debited from my account on the date it is due.
- For regular payments, do sign up a mandate with the customer for auto-debit, as it becomes easier for both the lender and the customer.
- This would always work for low-value payments

<https://www.linkedin.com/pulse/debt-collection-challenges-point-towards-technology-bakthikrishnan/>

EXAMPLE NO. 2

- For auto-debit of high-value payments, what do you do?
- Let us assume that someone pays you 50k monthly towards their home loan, which gets debited from their account on the 10th of every month. You send them a reminder on the 7th asking them to ensure their account is sufficiently funded to honor the debit.

EXAMPLE NO. 3

- Your customer has missed making the payment on the due date. You don't have to jump the gun and make calls or send your collection executives to their place as a first step.
- Try sending them voice broadcast messages, sms, and whatsapp texts reminding them of the payment overdue, and provide them with the option to make the payment online.
- Most people would pay immediately, and a few would pay in the next few hours or days.
- Those who still don't make the payment can be called as a follow-up.

CLEAR TOUCH INDIA'S CLAIMS

Using technology rightly, Clear Touch claims to have:

- Helped 100s of collection agencies worldwide.
- Increase 'right party' contacts by 288%
- Increase agent talk time by 169%
- Increase answering machine detection by 45%
- Ready/idle time reduction by 43%
- FTE (full-time employee) reduction by 44%

CLEAR TOUCH
powered by tcn



<https://www.linkedin.com/pulse/debt-collection-challenges-point-towards-technology-bakthikrishnan/> (February 22, 2023)

TECHNOLOGY DELIVERS BENEFITS IN B2C DEBT COLLECTIONS

Use of the right technology enables leading organizations achieve improved accuracy in reporting, reduced compliance risks, near-real-time notification and more, along with

- 30%-40% cost savings
- Zero regulatory infractions
- Reduction in human interaction up to ~40%
- Increase in 'promise kept rate' to 85% from ~40% on voice collections
- Consistent achievements in collections targets - 100% or above
- Improvement in NPS score by ~15%
- Dialer idle time reduced by 50%



TECHNOLOGY DELIVERS BENEFITS IN B2B DEBT COLLECTIONS

Use of the right technology enables leading organizations to enjoy great benefits in credit-to-cash cycle:

- Increase collector efficiency by up to 30%
- ~40% cost savings against your current spend
- Standardize the process to enable straight-through processing and reduce bad debts
- Reduce daily sales outstanding (DSO)
- Enable paperless payments through multichannel adoption
- 100% automatic payment-matching
- Reduce disputes and increase accuracy

<https://www.Wipro.Com/business-process/collections-as-a-service/>



CLOSING NOTES

- Generally, people borrow with the good intentions of repaying them on time.
- Collections as an industry would move towards the digital infrastructure, and small reminders and nudges would go a long way in ensuring collections without compromising on the customer experience.
- The credit bureau has become very robust, and any non-repayment will affect customers' chances of availing credit for any reason later.
- Bankruptcy and debt collection problem exists all over the world. The problem with Nigeria is that:
 - credit administration is not data-driven despite the good work of licensed credit bureaux, collections law is weak, and adjudication is slow

