

Consumer debt is surging: How debt collectors can mitigate the risk this poses to business

While our COVID-19 pandemic fears are starting to fade, its impacts are still being felt, especially in the pockets of many South Africans. When lockdown restrictions put a huge strain on businesses and countless jobs were lost, consumers turned to their credit cards to keep up with monthly expenses, resulting in worrying levels of indebtedness.

Data suggests consumers have on average 20 percent more unsecured debt in 2022 compared to 2016, and those earning R20,000 or more have unsecured debt levels that are 54 percent higher than in 2016. And the knocks just keep coming. Rising food and fuel prices are putting more strain on an economy struggling to recover, causing consumers to take on more debt to make ends meet, creating a vicious cycle that is hard to break free from. These effects are being felt in the business sector, as unpaid debt negatively affects a company's cash flow and limits its ability to recover, invest and grow.

According to Sameer Kumandan, Managing Director of data aggregation platform, [SearchWorks](#), South Africa's exceedingly high debt-to-income ratio demands an intelligent approach to debt recovery that considers a debtor's individual circumstances, including their affordability and current debt levels. "Businesses need the most reliable, up-to-date information available to avoid fraudulent accounts and ensure the correct communication channels are used for tracing purposes to recover outstanding monies and, in some cases, to deliver summons," says Kumandan.

The SearchWorks online platform allows users to conduct live, accurate searches on individuals and companies, and in-depth KYC checks online. This gives companies that extend credit access to vital information on potential and existing customers, enabling them to devise fact-based collections strategies to manage costs and maximise recovery rates. This information can also assist in the decision on whether or not to grant credit at all. "While businesses are required to grant credit in terms of the National Credit Act, they need to ensure that they give credit in line with what the customer can afford. If a business does not adhere to this it could be in danger of irresponsible lending," warns Kumandan.

By using SearchWorks, which offers the user 160 different search types and gives instant access to over 20 data sources, including all credit bureaus in South Africa, debt collectors can perform ID and bank account verifications; asset valuation; live tracing on individual and company records and batch tracing for multiple records at once; credit, past

employment, property and directorship searches; and have access to an income estimator on the new client, all within the confines of the law.

"A common challenge for debt recovery departments and organisations is not being able to find debtors, as they move around and change contact numbers. Debtors also frequently make payment arrangements, pay for a month or two and then stop paying. Accurate information is vital in this industry as the costs of recovering debt can escalate quickly, particularly when legal action must be taken," reveals Kumandan.

Like any good business strategy, efficiency is key. Debt collectors need to maximise resources at the lowest possible cost, while ensuring they are managing their financial risks, and they need to do this without wrestling with separate, manual and time-consuming systems. "Fortunately, this can be achieved using today's modern technologies and methodologies. SearchWorks' easy-to-use and cost-effective platform enables organisations to streamline their processes, giving collections departments the edge they need in a highly competitive market."

Ends.