

A professional portrait of Andrew Birkwood, CEO of Azzurro Associates. He is a middle-aged man with short, graying hair, wearing a dark blue pinstriped suit jacket, a white dress shirt, and a blue patterned tie. He is standing outdoors with his arms crossed, wearing a watch on his left wrist. The background is a dense wall of green foliage.

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Andrew Birkwood FCICM CEO Azzurro Associates

BLUE SKY THINKING

The purchase of commercial debts is gaining traction.

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MOST in the credit industry are familiar with the concept of debt purchase. It is big business, with major, established players dominating a multi-billion-pound industry. But whereas the acquisition of large, consumer debt portfolios is de rigeur, the acquisition of portfolios of delinquent commercial debt is not so common. Indeed, the market is so embryonic as to be little more than a glint in the milkman's eye.

Commercial debts have, of course, been sold in the past, though these have tended to be a tranche of small commercial bundled within a much larger portfolio of consumer accounts. It is far less typical for a business to actively seek to buy a commercial portfolio in isolation.

That's not to say there aren't those out there who are trying. What they are finding, however, are many of the same barriers to entry that affected the early consumer debt buyers, not least the issue of 'reputational risk'. A business that sells its debt to a third party will doubtless be concerned of the impact that third party will have on its reputation if something goes wrong or a complaint is made. The relationship and dynamic between one business to another is different to that of a creditor and a consumer. Despite the old adage that the only good customer is a paying customer, businesses are still reluctant to surrender that relationship to a third party.

One that could be said to be breaking the mould, however, is Azzurro Associates, led by CEO Andrew Birkwood FCICM. Andrew, a familiar face and name within credit industry and former Director of the Credit Services Association (CSA), is of course no stranger to debt purchase, having been Chief Investment Officer for Arrow Global until launching Azzurro in 2017.

TRANSPARENCY AND INNOVATION

His ambition with Azzurro (the name is partly taken from the concept of 'Blue Sky Thinking' is to bring the same levels of transparency, innovation and compliant customer approach as seen in the consumer credit sector, to the commercial debt market. His intention is to build a leading buyer of commercial

non-performing receivables across the UK and continental Europe through the creation of long-standing partnerships with creditors and servicers.

Initially, Andrew has been buying portfolios of B2B receivables from high volume SME industries such as energy and DIY. Azzurro is also purchasing delinquent commercial debts (merchant advances) on a monthly basis in a 'forward flow' transaction. But it is certainly a challenge: "I did perhaps underestimate the reputational risk that businesses perceive," he admits, "and so the process has taken longer than expected. It is like in the early days of debt purchase when you have to build trust and understanding with the creditors and debt owners. It is an education process."

Part of the problem, ironically, is the lack of any competition: "Without any competition or established market, there is no reference point to compare us against," he explains. "In the consumer space it is a mature market, but at the moment we are still building awareness."

What is interesting, from talking to Andrew, is that the debt that he does buy tends to range from comparatively 'fresh' to up to six-years delinquent: "Certainly once the legacy aged stock is cleared then the debt sold to us every month/quarter can be relatively new. Perhaps that is not surprising as a commercial debt that goes bad is more likely to end in insolvency than a consumer debt, and so there is more urgency around its collection. It also presents some interesting challenges when it comes to data, especially when it comes to sole traders and non-limited companies."

Arguably the longer lead times and lengthier decision-making processes has prompted Andrew and his team, which include Chief Operating Officer and Fellow of the CICM Karen Savage, to innovate. They are currently developing a new online portal that will enable smaller businesses to sell delinquent debts, either singularly (depending on its size) or in a tranche: "They upload the details of the debt, and we come back- with pricing and

a contract based on the same factors we would use to price any portfolio. It gives businesses an option they've not had before, rather than simply writing the debt off, and can therefore benefit their cashflow."

LITIGATION FINANCE

A further innovation is the launch of a Litigation Finance service where the cost of litigation is borne by Azzurro: "We provide the finance to make it happen," he explains. "It is non-recourse so entirely

contingent, and we get paid a percentage of what is recovered. It is effectively a debt collection approach to actively managing your book on a legal basis. We can also be very flexible, either using our own legal team or working alongside a client's

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in-house team, whichever they prefer. Either way, given that we are taking the cost of litigation away, we are seeing good engagement across the credit industry."

Flexibility, Andrew says, is key, especially as the economy starts to decline and businesses see debt sale as a good way of improving liquidity. Alongside the launch of the new portal, Andrew is also working with leading Credit Reference Agencies (CRAs) to develop commercial scoring models to further improve pricing accuracy, understanding and segmentation. "Building on our partnership ethos, we intend to share these scoring models with our creditor partners to aid their credit management processes. We have built a strong decision science team to work with CRAs and other data providers in building predictive models to aid customer segmentation. In line with our transparent approach, we share all data and practices as a default."

Regulated both in the UK and the Netherlands, Andrew's ambitions are not limited to the shores of the UK, and he is happy to engage further afield. Closer relationships with IPs and credit insurers are also likely to emerge as the amount of delinquent debt increases. But Andrew is in it for the long term: "I have learned to be patient," he laughs.