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Super & funds
JOHN COLLETT

In over your head

The debt collection business is booming and, for consumers, that should be worrying. That a lot of people are struggling to pay their bills should not be surprising given Australian households are among the most indebted in the world.

But it also seems that for many people, especially younger people, the stigma of not paying bills on time has largely gone. It's become normalised.

The biggest privately owned debt collector, Prushka, has been taking on staff as business (new debts coming in to be collected) has increased 80 per cent from a year ago, when consumers were concerned about the financial crisis.

Contrary to what most of us think, the business of debt collection booms in the buoyant economic times, says the chief executive of Prushka, Roger Mendelson. That's because when people are confident they borrow more, debts build up and bills go unpaid, he says. Interest rates are rising but consumers still feel confident, particularly about their job security. And, as house prices rise, consumers feel wealthier.

Debt collectors are like the canary in the coal mine. They are in the front line and can pick the trend early, before it's reflected in official statistics.

Prushka has more than 180 staff in 40 offices around the country. It provides debt collection services for small- and medium-size businesses including professional practices, such as medical and veterinary clinics, retailers, tradesmen and builders.

A year ago, business for Prushka was substantially down because there was less credit being advanced during the economic downturn. Perhaps the federal government's one-off cash handouts, which were part of the



government's economic stimulus package, also helped consumers to pay their bills. But now it is not only more consumers having trouble paying their bills, it's also that smaller businesses are watching every cent as the banks are putting the squeeze on them with high interest rates for business loans and tougher lending criteria.

Mendelson says businesses with the best debt recovery are those family businesses where the owners know that if they do not collect the debts they will not be able to pay their children's school

fees. But of all the businesses that Prushka acts for, veterinary clinics have always had significant debt collection problems. "People's great love for their dogs tends to diminish when the bill comes in," he says. Smaller healthcare businesses, like pathology and radiology practices, are another with big arrears in unpaid bills. Mendelson says it grows as the gap between what the practitioners charge and what is claimed by consumers through Medicare increases.

As to the reasons people do not pay their bills, Mendelson says it can be just

that people are disorganised or have moved house. But, he says, for a high number of households it takes only one thing to go wrong and they fall behind. An unexpected expense can put the household budget out of kilter.

Mendelson has been running Prushka for 33 years. One of the biggest changes he has noticed over that time is how younger people are much more relaxed about paying bills on time than their parents.

Younger people are less likely to regard receiving a call for an unpaid debt as a stigma – they are more likely to see it as just a part of life, he says.

In the regional areas there is more "honour", where people just pay their bills, compared with the cities, where people are in more debt. Mendelson

Under proposed changes to credit reporting, lenders will have more information about those who get behind on loan repayments.

says the degree of belligerence from those consumers that Prushka chases for money in Melbourne is not very much at all, whereas in Sydney, consumers tend to take a harder line with debt collectors.

Consumers should not be complacent about paying bills on time. Under the proposed changes to credit reporting, lenders will have much more information about those who get behind on their loan repayments and it will be much easier to identify those struggling with debt.

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In deep ... collections agency Prushka claims there is an increasingly relaxed attitude to bill paying.
Photo: Jim Eddie