# The 500-Person Fallacy

## Why headcount is not operational readiness in backup servicing

WHITEPAPER & PERSONAL OPINION PIECE

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## Opening Remark

There is a pitch I have heard dozens of times, on both sides of the table. It runs roughly like this: “We have 500 people on payroll. If anything goes wrong, we step in and handle it.” It sounds reassuring, and it is meant to. After enough years on different sides of structured credit transactions, I have come to think it is the wrong way to size the problem.

Headcount is not operational readiness. The number 500 is illustrative; the mistake it stands for is not. Backup servicing capability tends to get measured against current operational capacity, against the team that exists today, rather than against the situation that actually triggers it, which is the moment the people who ran the portfolio are no longer there.

You see the same mistake from two directions. The large incumbent servicer treats its own workforce as the proof point, while the originator looks at its operations team and decides it could cover backup servicing itself if it ever had to. Both are sizing the problem against the wrong moment. A team of five can comfortably service a EUR 30 million BNPL book as long as everyone is still turning up to work, but a servicer termination is exactly the situation where they are not, which means the number that matters is not five, it is zero.

What determines whether a backup servicer can actually activate and deliver is something more boring than headcount: the quality of its integration with the originator’s systems, and the state of its data on the day the trigger fires. In many of the transactions I have worked on or reviewed, the distance between a large team and genuine readiness was wider than anyone in the room wanted to admit.

This paper works through the question in four parts: what backup servicing requires operationally, why internal arrangements fail the test, what a credible external provider looks like, and how to think about the cost.

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## Part 1: What backup servicing actually requires

Most discussions of backup servicing never get past the legal appointment: the agreement is signed, the condition precedent is satisfied, and everyone moves on to the next line on the closing checklist. As a piece of closing mechanics that is entirely fine, but it tells you almost nothing about what happens on the day the appointment is actually called, which is the only day that ends up mattering.

When it is called, a number of things have to work at the same time, from a standing start, inside a fixed window. Lenders generally expect an external party with no prior involvement to take over the portfolio within five to ten business days, produce a compliant investor report, and keep collections running without a gap.

That is a demanding standard. Inside that window the backup servicer has to take over the data, recalculate the borrowing base, produce investor reporting against the facility documentation, keep collections and dunning running, and handle the regulatory notifications, all at the same time, and all while the originator's own operation is failing or already gone.

The traditional model was built for a calmer world. It assumed slow-turning, homogeneous portfolios: mortgages, long-dated consumer loans, asset classes where the underlying contracts barely move from one quarter to the next and where taking a few weeks to get going is tolerable. In that setting the standard operating model is perfectly defensible. You receive a quarterly data dump, you archive it, and you plan to load it into your systems on the day you are activated. There is time, and the portfolio is not going anywhere.

Most European non-bank lenders live nowhere near that world. BNPL receivables turn over in about 30 days. Leasing involves physical collateral moving in and out of warehouses. SME lending products get modified constantly. Originators ship code every week and swap payment service providers without telling anyone downstream. A backup servicer holding a three-month-old data extract in that environment is not a safety net. It is an archive of a portfolio that no longer exists in that form.

Which is why a single blunt question tells you more than any amount of relationship history: can this backup servicer produce a current and accurate reconciliation of the portfolio today, with no onboarding runway and without first loading last quarter's data extract?

A provider that can answer yes already has the live data, a running reconciliation, and systems that match the portfolio as it stands today. A provider that cannot do this, however many people sit on its payroll, will spend the first days or weeks after activation reconstructing a picture of what it is supposed to be servicing. That reconstruction happens in the middle of the crisis rather than ahead of it, and on a fast-turning book, every day it takes is value leaking out of the assets.

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## Part 2: Why internal arrangements fail the test

The most common objection to appointing an external backup servicer is that the originator can simply do it itself. The team built the loan management system, mapped the data fields, and negotiated the eligibility criteria. If something went wrong tomorrow, surely they could keep the thing running.

It is an understandable position, and it is still wrong, for one reason that swamps the others. In a termination scenario, whether insolvency, licence revocation, or plain operational failure, the people who know how to run the portfolio are the same people who have just lost their jobs, become legally constrained, or otherwise vanished from the picture. The institutional knowledge that made the in-house option feel safe is precisely what evaporates at the moment you need it.

Three versions of the in-house argument come up again and again. None of them survives contact with a realistic wind-down.

**The key-person agreement.** Named employees sign a contract agreeing to help with the transition after an insolvency. The flaw is legal rather than commercial. Once proceedings open, there are real restrictions on what former directors and employees may do with company data and systems, and it is the administrator, not the originator, who controls the estate. An arrangement that relies on the goodwill of former staff after the fact is unenforceable in most European jurisdictions and unreliable in the rest.

**The runbook.** A thick folder of operational documentation: how to build the borrowing base, how to produce the investor report, how the waterfall works. Good documentation is worth having. It is not a backup servicer. A runbook tells you what to do; it does not give you the people, the systems, the data access, or the regulatory standing to do it. Hand the best runbook you have ever written to a generic fund administrator who has never touched your asset class, and see how day one goes.

**The affiliated entity.** Appointing a related company as backup servicer. This can genuinely work, but only if the affiliate has real operational capability in the asset class and enough independence to satisfy the lenders. Independence is usually where it falls down. If the originator goes under, the affiliate is often exposed to the same pressures, the same funding squeeze, and sometimes the same shareholders. Independence here is not just a line on a structure chart. It is an operational fact, or it is not.

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## Part 3: What a credible external backup servicer looks like

External providers are not interchangeable. What separates a genuinely ready one from a contractual placeholder comes down to a handful of things, and the size of the team is not the first of them.

**Asset class depth.** The provider has actually serviced or shadowed portfolios in your asset class and knows how they break. Chasing missed BNPL instalments has very little in common with recovering leased equipment.

**Data infrastructure.** This is the factor that matters most and gets talked about least. The credible approach treats backup servicing as a continuous data operation rather than a plan that springs to life from cold. In practice that means integrating with the originator at the API level from day one, and pulling every loan, every payment, and every contract change into the backup servicer's systems in real time or close to it. The backup servicer effectively runs a shadow loan management system: it tracks everything and reconciles continuously, without getting in the way of the originator while things are normal.

That continuous integration has a handful of practical consequences. The shadow reconciliation matches payment service provider transactions against loan-level records on an ongoing basis, so breaks surface while the originator is still a going concern rather than after a default has been declared. It gives lenders an independent view of cash flows that covers work which would otherwise need a separate verification agent. It also exposes changes on the originator's side: if reconciliation quality drops or payment volumes move unexpectedly, that tends to show up in the data before it is formally reported. And when activation finally comes, the data, the dunning workflows, and the collection integrations are already in place and tested, so the handover is something the backup servicer has effectively been rehearsing rather than improvising on the day.

**Calculation agent experience.** A provider that already acts as calculation agent or verification agent on comparable facilities can produce the borrowing base and the investor report because it does that work every reporting cycle, not because it skimmed the documentation once during onboarding.

**Warm standby readiness.** The provider can show you an activation timeline from trigger to first compliant investor report, and is willing to put it in the contract. Cold standby is a promise. Warm standby is a process that has been run before.

**Lender acceptance.** Lenders have already accepted the provider as backup servicer on comparable deals. This is not box-ticking. Every lender that has already said yes is one negotiation you do not have to have.

None of this makes people unnecessary, and it would be dishonest to pretend otherwise. An activation still involves dealing with insolvency administrators, negotiating with counterparties, making judgement calls in genuinely ambiguous situations, and managing escalations. That work is human and stays human. What automation takes off the table is the other category: reconciling payments, running dunning, handing collections to partners at pre-agreed DPD thresholds, fielding first-level customer queries, and generating investor reports from the live system of record. What is left is the part that needs experience and judgement, and a lean, skilled team backed by BPO capacity for peak loads is the right shape for it. A large permanent team that sits idle most of the time is not evidence of strength. It is a cost base in search of a rationale.

There is one fair objection to the smaller, technology-led provider, and it deserves a straight answer rather than a dodge: what happens if the backup servicer itself fails while it is mid-engagement? Part of the answer is contractual, through automatic replacement clauses tied to runway thresholds and regular reporting to lenders. The other part is that the comparative risk actually runs the other way. When a large manual servicer runs into financial trouble, there is nothing to transfer, because the operational asset is the workforce and the workforce walks out the door. When a technology-led operation hits the same trouble, the code, the data, and the operational playbook can be preserved and handed to someone else to run. The fallback is easier to manage, not harder.

Before signing with anyone, five questions tend to settle the matter:

1. Can you produce a current, accurate reconciliation of a portfolio in this asset class right now, before any onboarding? Ask to see it, not to hear about it.
2. How do you take in originator data, and how often? A quarterly file and a live API are not the same product, whatever the deck says.

3. Have you acted as calculation agent or verification agent on a comparable facility, and will a lender from that deal take a reference call?
4. What is your activation timeline from trigger to first compliant investor report, and will you commit to it in the agreement?
5. Which lenders have already accepted you as backup servicer, and on which asset classes?

If the answers keep coming back to headcount and general experience rather than to data, systems, and names you can call, you are looking at a placeholder, not a backup servicer.

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## Part 4: The cost question

Backup servicing is usually treated as a cost to be minimised, a line item to be pushed down before closing. That misreads what you are actually buying.

The retainer for a warm standby arrangement is not overhead. It feeds directly into how fast the deal gets done, how comfortable the lender is, and what terms you end up with. A credible, pre-appointed backup servicer is one less open question in front of the credit committee. It shortens diligence, and it can move advance rates and conditions, because the continuity problem has already been solved rather than promised.

In my experience, originators who put a credible backup servicer in place early, before a lender forces the issue, tend to close faster and on better terms than the ones who leave it as a last-minute condition to clear. Set against a facility that closes late or reprices, the cost of the arrangement is small. Treating backup servicing as a cheap checkbox is usually how it ends up being expensive.

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## Where this is heading

European structured credit is still growing, the originators behind it increasingly look like technology companies, and the asset classes keep getting faster, more varied, and more data-heavy. The infrastructure meant to protect lenders and capital providers has to keep up with that, not lag a generation behind it.

The old model, built on large manual teams and periodic data deliveries, was good enough for an earlier kind of lending. It fits the operational reality of modern non-bank credit less and less well. If the real problem is keeping data and systems continuous, then the answer has to be built around data and systems. Headcount is not the variable that solves it.

People still matter. The foundation underneath them has to change.

# About Credibur

Credibur is the operational infrastructure platform for non-bank lending and structured credit in Europe. We act as calculation agent, verification agent, reporting agent, and backup servicer on warehouse and ABS facilities across asset classes including BNPL, factoring, leasing, and SME lending, with the real-time data integration described in this paper built into how we operate rather than bolted on at the point of activation. More on the backup servicing work is at [backup-servicer.com](https://backup-servicer.com), and on the wider platform at [credibur.com](https://credibur.com). This paper was written by Nicolas Kipp, Founder and Managing Director of Credibur, previously CRO at RatePAY, where he ran risk and fraud for BNPL at scale, and co-founder and CEO of Banxware in embedded SME lending.