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Holistic debt management — a next generation strategy to enhance the collections process

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Introduction

Today's agenda

- Overview of holistic debt management best practices

- Industry case studies

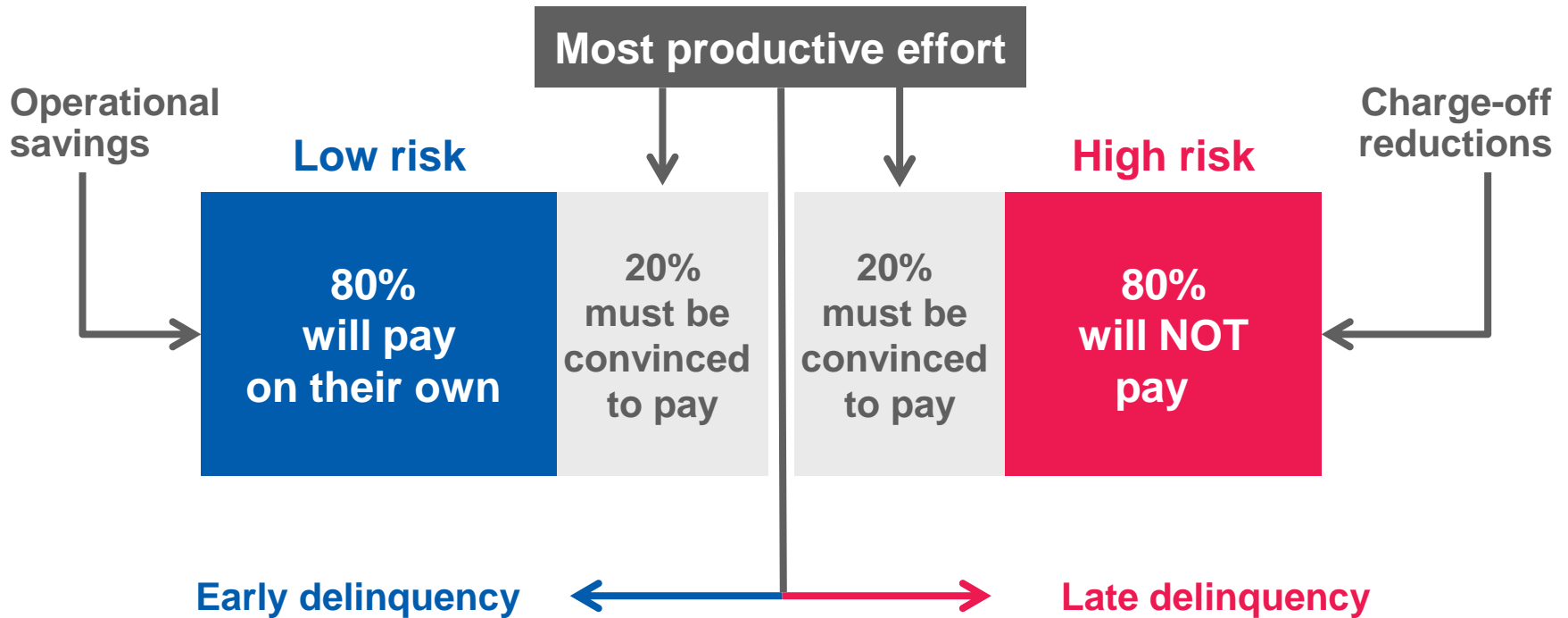- Questions and answers

- Summary

Industry trends
Holistic debt management best practices

- Focus on **risk-based strategies**, not time-based activities

- Expanding use of external data for **micro segmentation**

- Aggressive collections treatment against high risk customers

- Maximize the productivity and performance of internal and external resources

- Optimization of field services / terminations and treatment paths

- Liquidation-based segmentation for post final bill recoveries

The fundamental challenge
Which customers and which treatment?

Most productive effort

Operational savings

Low risk

High risk

Charge-off reductions

| 80% will pay on their own | 20% must be convinced to pay | 20% must be convinced to pay | 80% will NOT pay |

Early delinquency ← → **Late delinquency**

Segmentation avoids a "one size fits all" treatment approach

Best practices in collections decisioning and operational execution

Internal data

- Behavior and preference characteristics of various contact channels
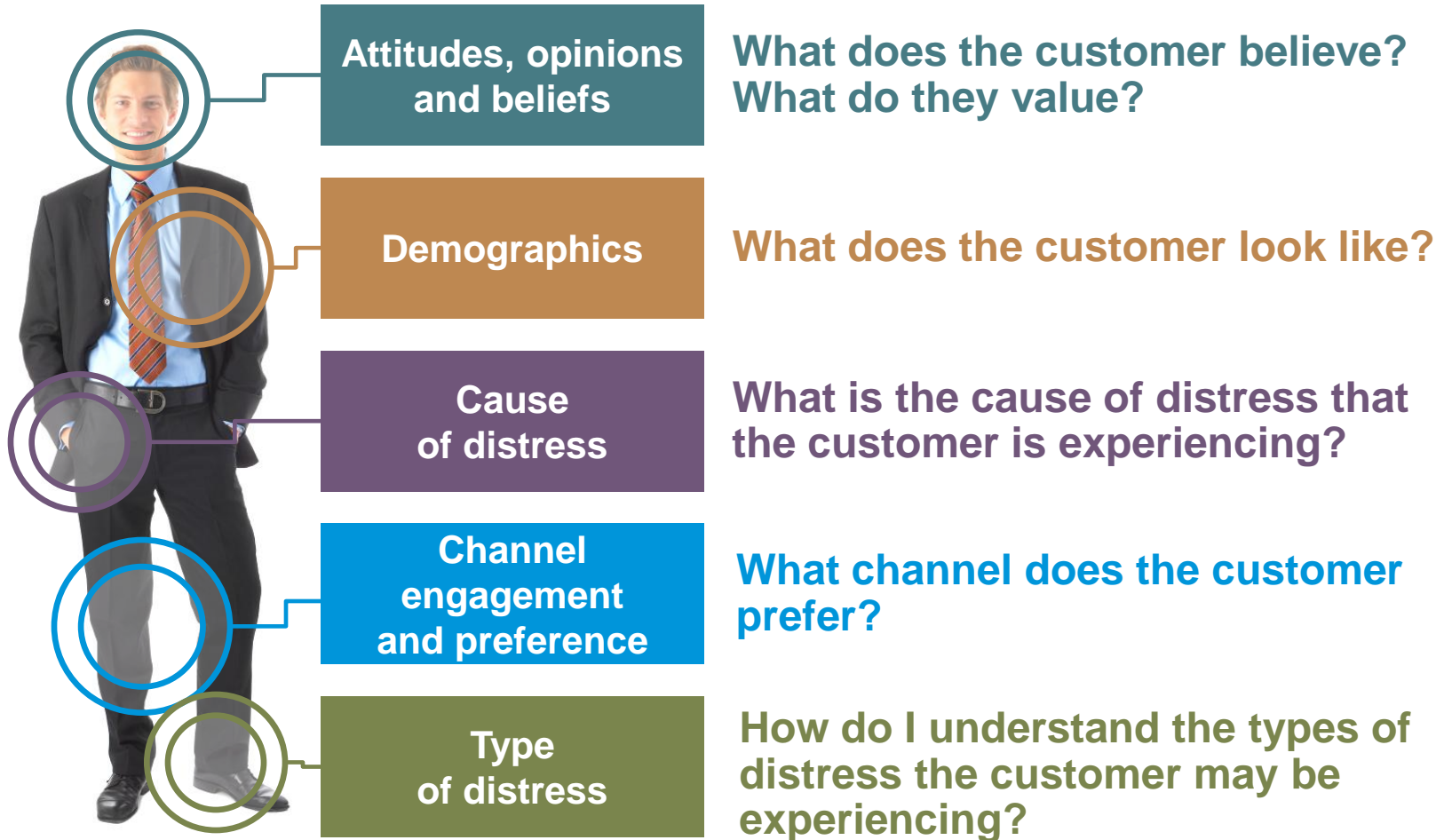
- Internal triggers and usage patterns

External data

- Demographic data – income, wealth, age / gender, household composition, property characteristics, etc.

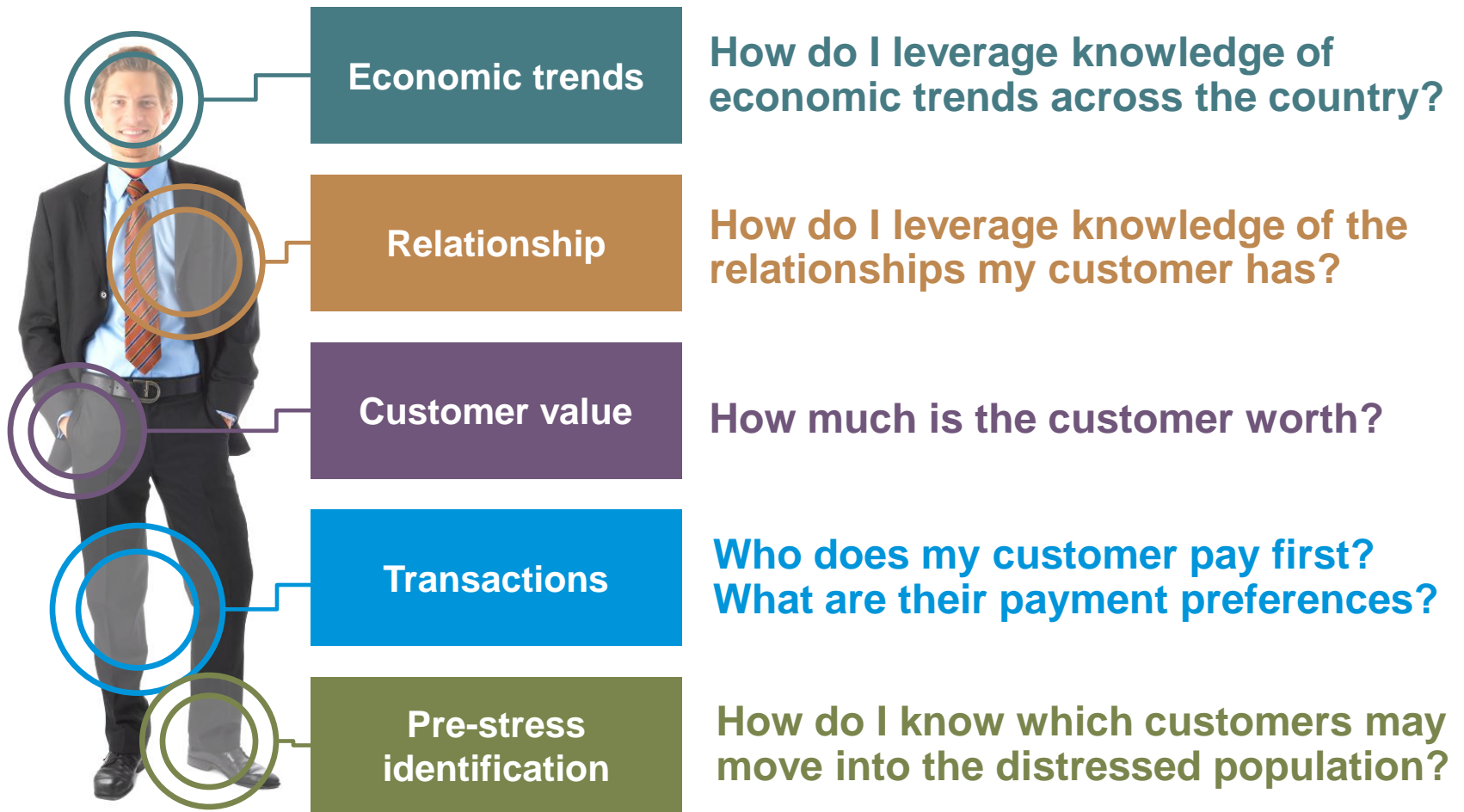- Propensities – behavior and preference characteristics

Micro segmentation
Know your customer

Attitudes, opinions and beliefs	**What does the customer believe? What do they value?**
Demographics	**What does the customer look like?**
Cause of distress	**What is the cause of distress that the customer is experiencing?**
Channel engagement and preference	**What channel does the customer prefer?**
Type of distress	**How do I understand the types of distress the customer may be experiencing?**

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Micro segmentation
Know your customer

Economic trends — **How do I leverage knowledge of economic trends across the country?**

Relationship — **How do I leverage knowledge of the relationships my customer has?**

Customer value — **How much is the customer worth?**

Transactions — **Who does my customer pay first? What are their payment preferences?**

Pre-stress identification — **How do I know which customers may move into the distressed population?**

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Best practices in collections decisioning and operational execution

Data

Scores

Scorecard examples

- Behavior
- Indebtedness
- Bankruptcy
- Income

Generic and custom scorecards are available

- Generic models
- Custom models
- Data pooling
- Optimization

Best practices in collections decisioning and operational execution

Data	Scores	Decision systems

Internal data

External data

Accounts

Non payers

Payers

Score

Modelling Segmentation and scoring

Number of days in collections
- Less than 30 days
  - **Credit score**
    - High risk
    - Medium risk
    - Low risk
- 30+ days
- 60+ days
- 90+ days

Customer-level optimization

Best practices in collections decisioning and operational execution

Decision systems

Number of days in collections
- Less than 30 days
  - **Credit score**
    - High risk
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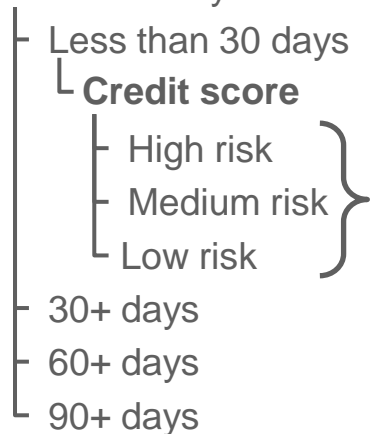
Customer-level optimization

- Segment customers
- Apply scorecards
- Assign strategies / actions
- Apply champion / challenger
- Simulate new strategies
- Optimize decisions for channels and treatments

Best practices using optimization

Customers (millions)	Channels (multiple)	Treatments (multiple)	Contacts (frequency)
	Bank	Treatment "A"	1: Contact 1
	Mail	Treatment "B"	2: Contact 2
	Web / online	Treatment "C"	3: Contact 3
	Email / Mobile / SMS / IVR	Treatment "D"	4: Contact 4
		Treatment "E"	5: Contact 5
		Treatment "F"	
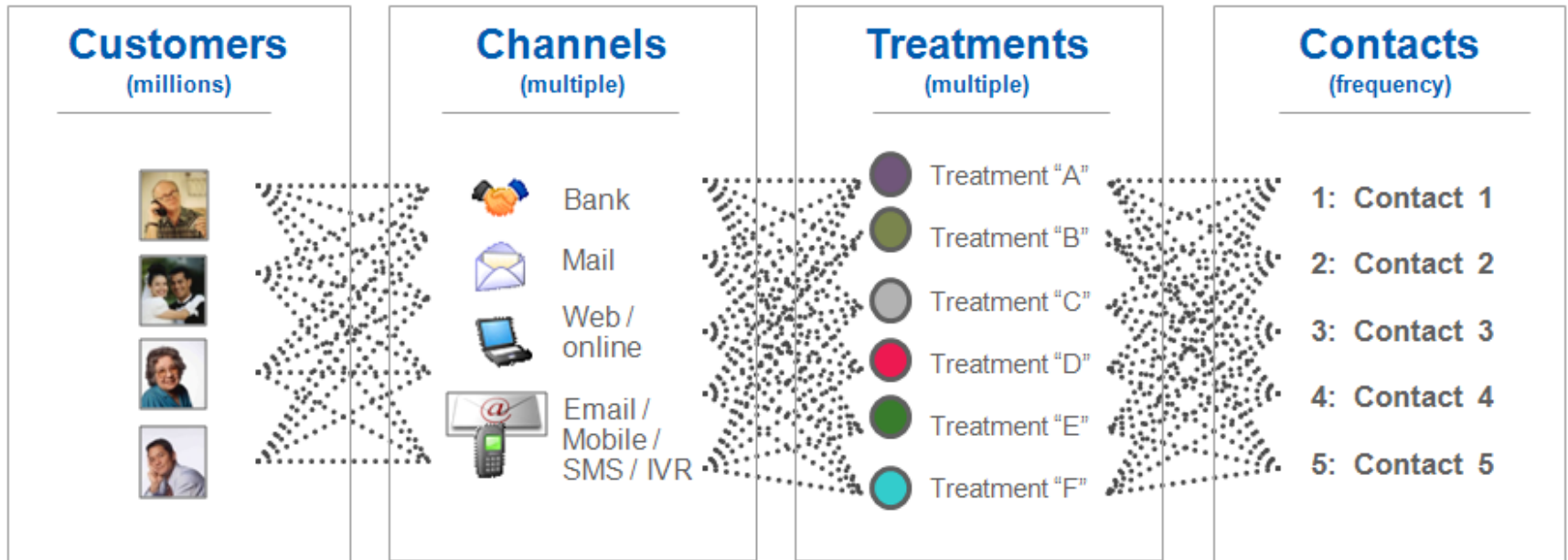
Constraints applied such as:

- Customer contact
- Channel capacities
- Treatment volume minimums and maximums
- Contact frequencies, etc.

Constraint-based optimization (maximize return)

Using optimization for field collections

Different scenarios / business goals can now be run against the accounts entering the field for termination

- Highest arrears
- Age of arrears
- Number of days in the eligible to cut window
- Outbound pre-cut call successful
- Returned checks
- Last payment made (date)
- Location coordinates

- Location coordinates
- Defaulted payment plan
- Meter location (inside vs. outside)
- Two-man vs. one-man areas
- HEAP recipients
- Recently removed protection
- Meter constant variable

Benefits: Maximizes overall risk-adjusted profitability and ROI
- Increased profitability by 10% to 30%+
- Demonstrated success in the utility / energy industry

Best practices in collections decisioning and operational execution

Data

Scores

Decision systems

Workflow

Automated

Manual

- Workflow rules

- Real-time re-segmentation
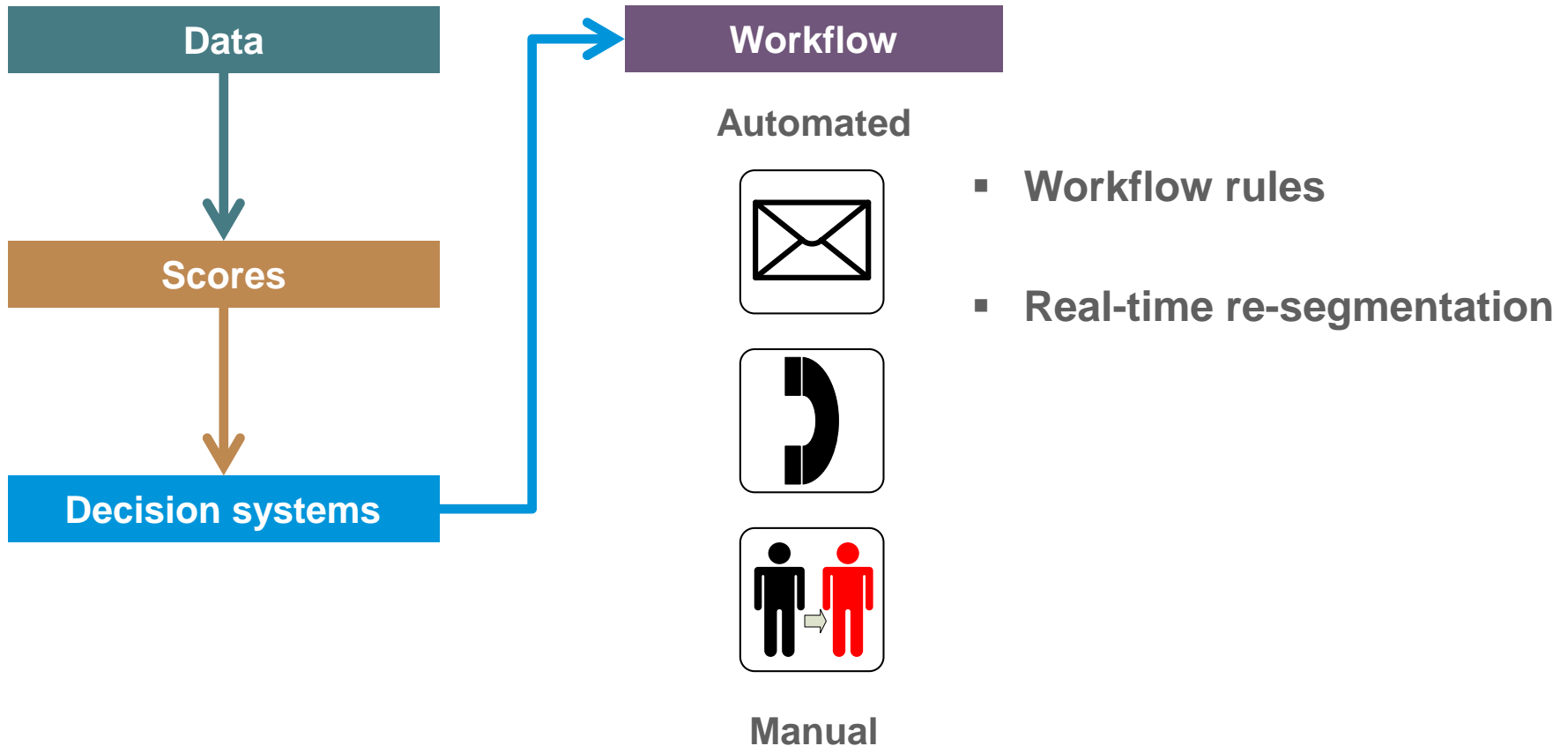
Agency management
Profit motives of agencies and clients are not often aligned

Sweet Spot

Client 1
Client 2
Client 3
Client 4
Client 5
Client 6
Client 7
Client 8
Client 9
Client 10
Client 11

You
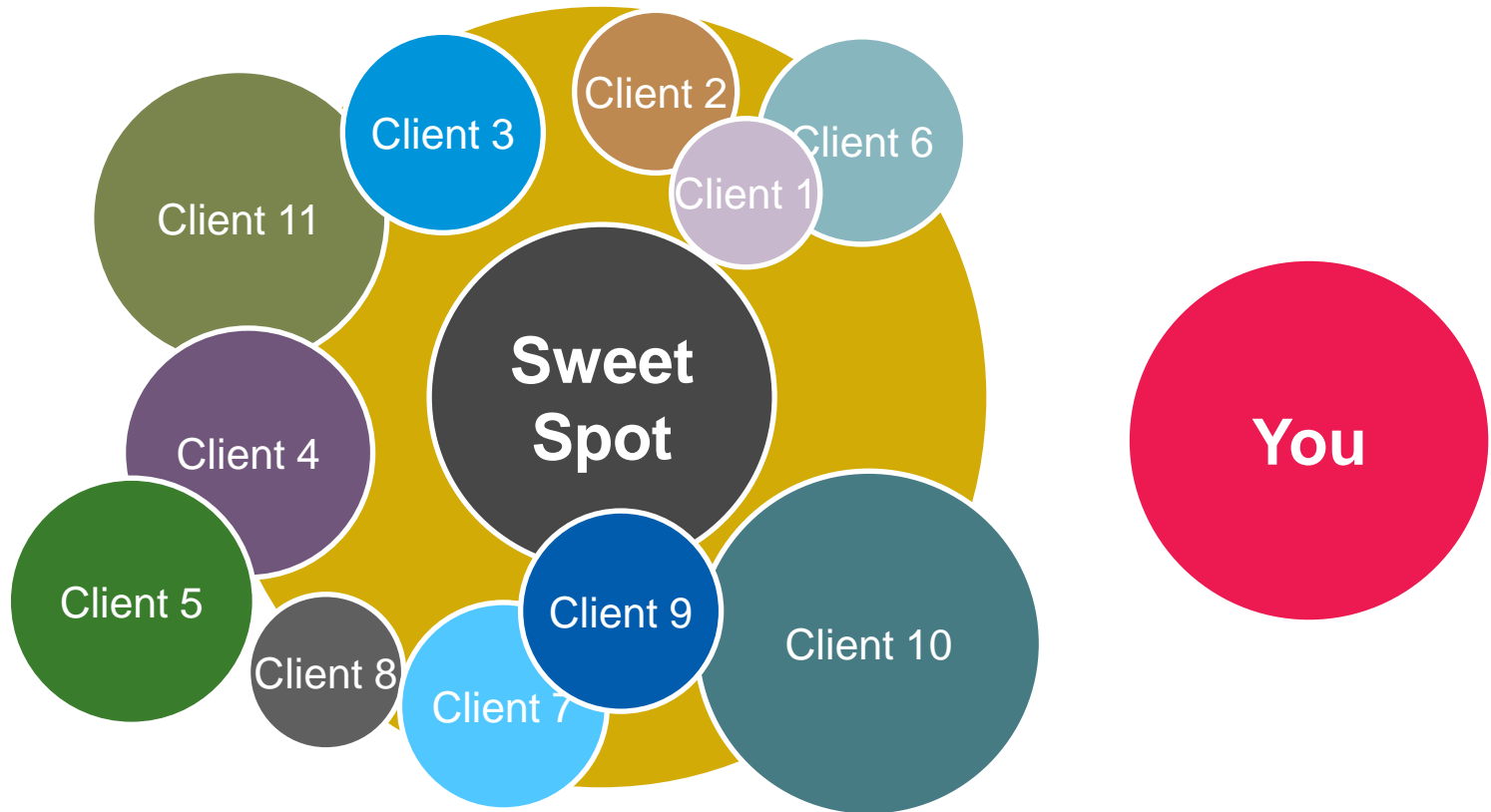
Agency sweet spot
Commissions received greater than the cost to collect

Agency management
Segmentation by liquidation value for yield adjusted pricing

Liquidation model

- $0–199 @ 32%
- $200–399 @ 30% — Agency 1 / Agency 2
- $400–599 @ 28%
- $600–799 @ 26% — Agency 1 / Agency 2
- $800–999 @ 24%
- $1,000–1,499 @ 18%
- $1,500–1,999 @ 15%
- $2,000–4,999 @ 12%
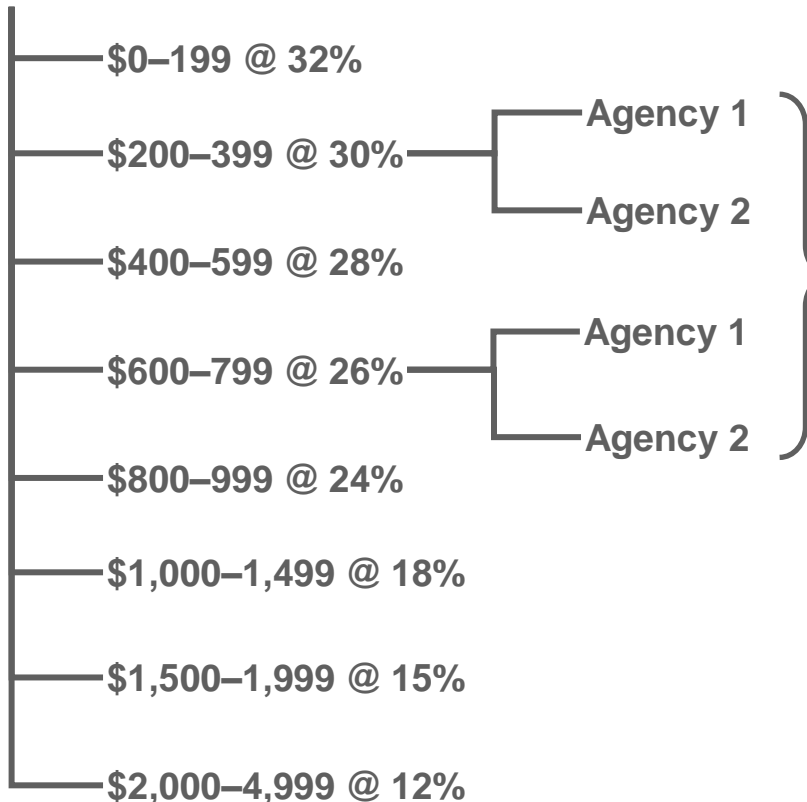
Leverage reporting to measure performance of agencies against defined liquidation model forecast by segment and provide competitive metrics for market share competition

Agency performance …
Using vintage liquidation curves

Agency management – Improving performance through agency scorecards and competitive market share

- Weight liquidation performance through the assignment cycle

- Assign scores by performance ranking

- Adjust scores by audit issues and other performance criteria

- Publish scorecard results to all agencies

- Market share adjustments will drive agency competition

Best practices in collections decisioning and operational execution
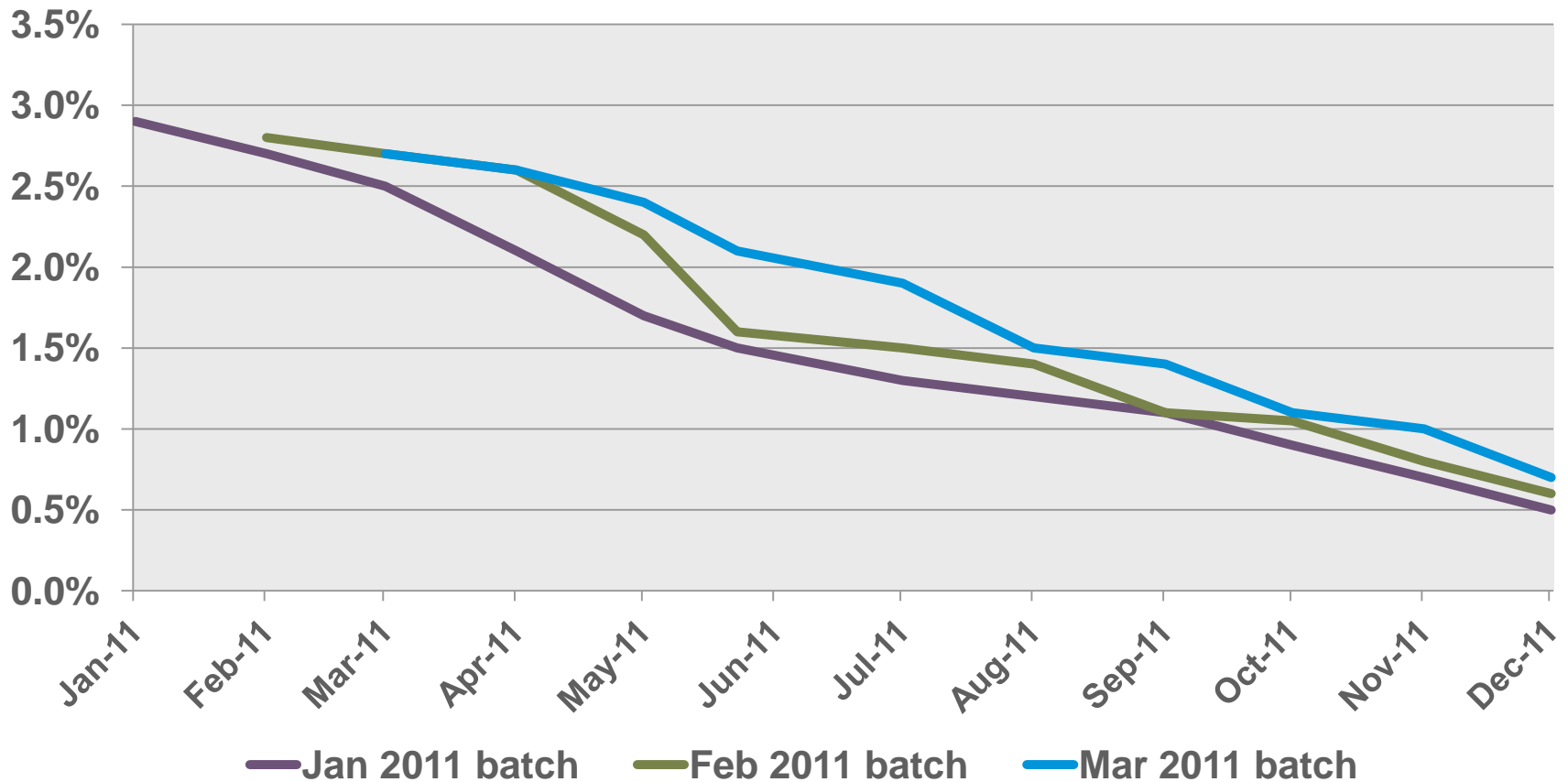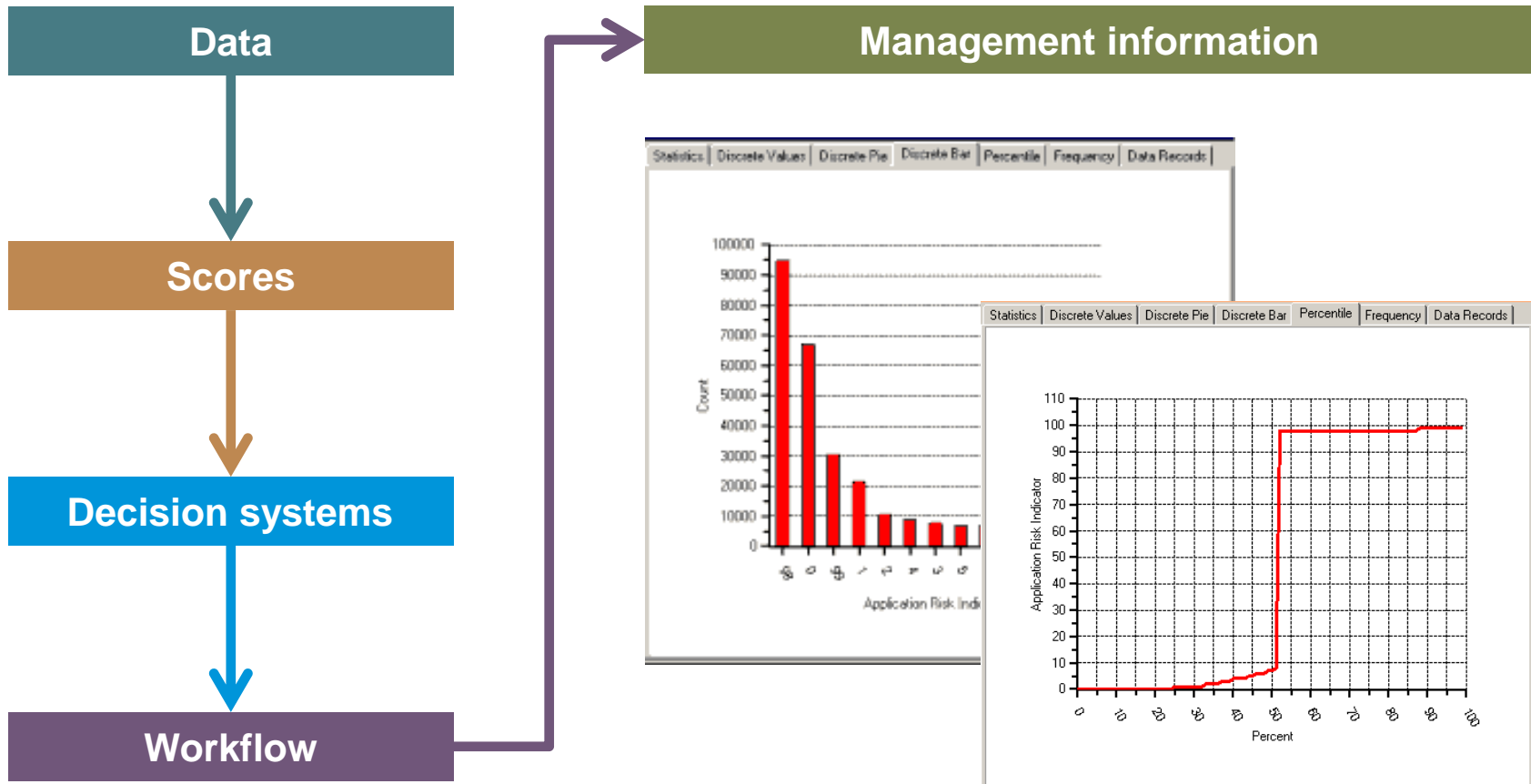
Industry case study examples

Voice of the industry

Kam Newman
Sr. Manager,
Credit, Debt & Prepaid Strategies

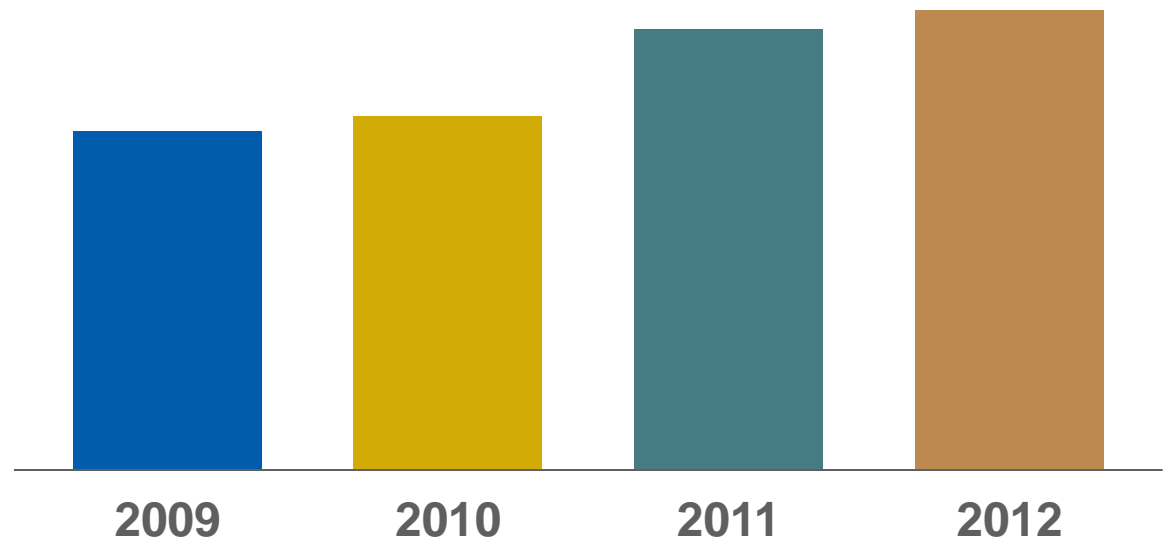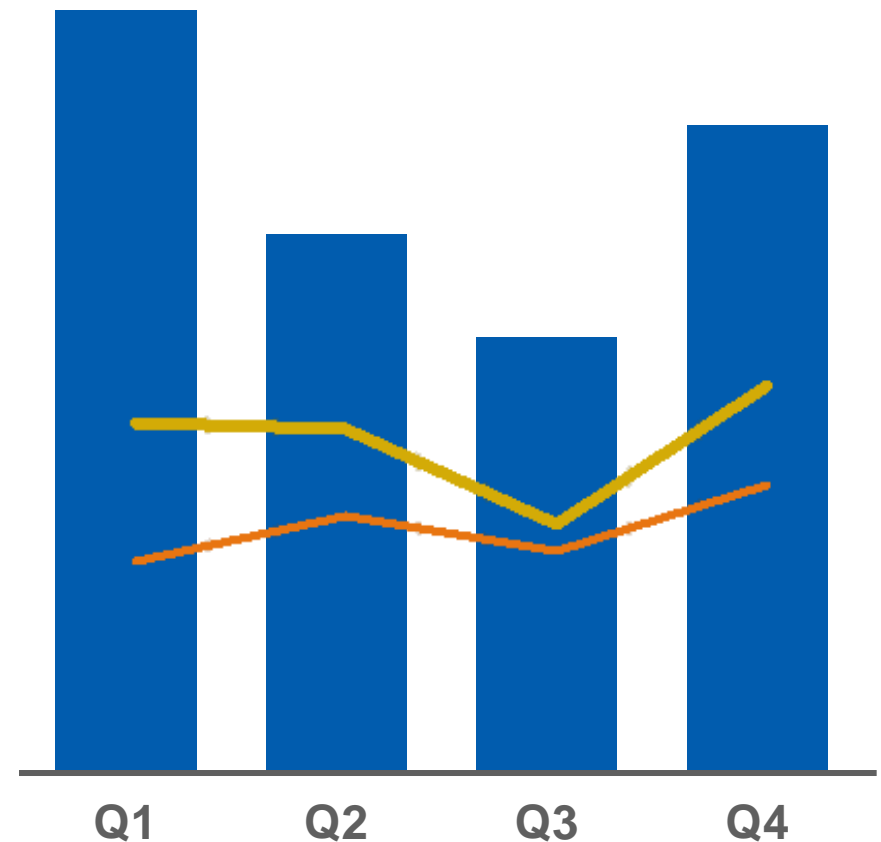Direct Energy.

Credit decision optimization

- Smart meter vs. analog meter

- Tier deposit / prepay

- Thin file / no hit / alternative attributes

- Fraud prevention

- Debt owed

| 2009 | 2010 | 2011 | 2012 |

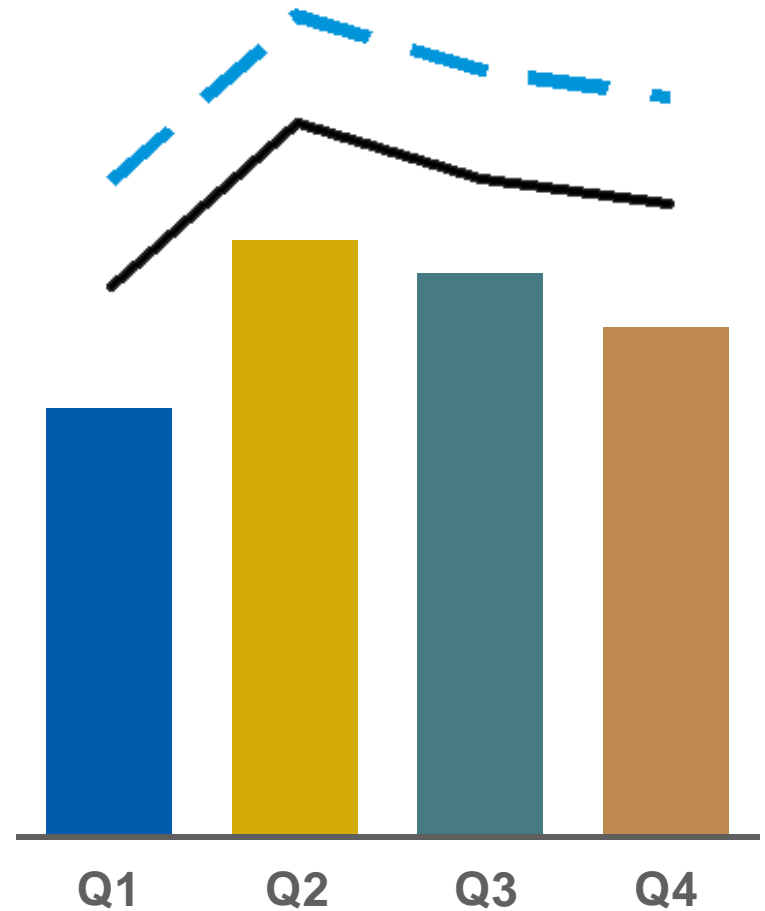Experian℠

Live account management

- Multiple timeline segmentation

- Behavioral / predictive analytics

- High risk prepay conversion

- Life time value

- Fraud management

Post charge-off optimization

- Risk-based commission structure

- Micro segmentation

- Performance analytics

- Next generation collection conduit

- Net-back optimization

Q1   Q2   Q3   Q4

Questions and answers

Summary

- Synthesize data to profile customers

- Use segmentation to drive a risk-based collections strategy

- Leverage optimization to balance competing objectives in contact channels and field services

- Accelerate cash flow on recovery inventory using liquidation based segmentation

- Operationalize through decisioning and workflow systems to drive lower losses and cost savings

Thanks for attending!

For additional information, please contact:

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