

Signs of recovery?

Risk and collections managers' work is yet to come!

By Matthew Dodd

As the newspapers and politicians talk excitedly about the first signs of recovery, the risk and collections teams are watching their rising delinquencies.

Experience tells these teams that the end of a recession will be followed by a peak in unemployment and that the peak in bad debt will follow later (the lag determined by individual financial stability). In other words, peak volumes are yet to come for the collections department.

Collections managers are continually looking for ways to improve the debt management operation by:

- Improving operational efficiency
- Reducing write-off and provisioning
- Improving cash-flow
- Ensuring compliance

With the talk of economic recovery, a further objective will be added; rehabilitation of customers who have previously had a good track record.

How to manage the increase in collections cases?

For many collections managers, the first thought is to increase staff numbers to deal with the rising number of cases. However, there are ways the operation can be improved without increasing resources. Managers need to look at how we can use what is there today more effectively.

To be more effective, the actions applied to a customer will remain the same, the timing and the mix of actions will change, typically based on risk and value. The first step is to assess customers into:

- Those who can pay but choose not to
- Those who cannot pay

With this assessment, customers can be placed on a continuum and the appropriate treatment applied to them. To perform the assessment requires internal data about customer performance and

ideally be supplemented by external public or bureau data.

Scorecards are applied to this data, to rank the risk or likelihood of payment. This assessment is coupled with other data, such as any arrears balances, details about recoverable assets and the relative costs and effectiveness of different treatment paths.

Such an assessment and placement of treatment path might look like this:

↑ Capability to pay	Assess payment freeze	Fast track through to mid collections	Fast track to debt safe or recovery
	Assess alternative product	Normal collections	Specialist collection unit
	Low cost treatment – re-establish payment	Normal collections	Fast track through to mid collections
		→	Intention to pay

Strategic collections capabilities

Is your collections system capable of this level of strategic collections? Does it give you the ability to apply multiple scorecards for deep insight, test, evolve and monitor performance and rapidly change strategies as the economy shifts?

There are various tools promising to support this, ranging from simple hard coded solutions built by your IT department through to sophisticated decision management workflow solutions.

“But we can’t invest in systems and processes” I hear you say.

While a sophisticated collections system will improve every aspect of the operation, the capital investment required may not be supported at this time. In addition, organisations need to look closely at the delivery process and implementation time to understand whether the benefits can be realised when the delinquency hits its peak in the near future.

However, a major investment isn’t the only option. Service based propositions;

online tools and maximising the use of current tools all, offer a rapid return for a small investment of time and minimum IT involvement. The impact on your business can be significant:

Improve operational efficiency

1. Staff focused on cases most in need of personal contact and leaving those least in need of personal contact to self cure through low cost medium

2. Ineffective contacts points are identified and removed.

3. Worst cases are removed from collections earlier to reduce wasted efforts. They are either passed to a DCA, sold or final settlement is taken sooner.

Reduce write-off and provisioning

1. Fast-tracking cases to most effective treatment means you are at the top of your customers’ payment hierarchy.

2. Reduced roll-rates reduces provisioning requirements.

3. Earlier debt sale, allocation to DCA or recovery activity will increase success and value realised.

4. Providing alternative products to customers who are overstretched on current terms.

Improve cash-flow

1. Focusing on customers who have cash with which to make payments, ensuring your payment is further up their payment hierarchy.

2. Accelerating collections actions for the most indebted will accelerate payments to you.

Ensure compliance

Actions are taken in the order you define, using the tone and message you define.

Customer rehabilitation

Customers with a good track record who have a genuine reason for non-payment will be offered alternative products or ‘holidays’. ■

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