

White paper summary

Prevention is better than cure: the role of a pre-delinquent strategy in managing bad debt



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The global recession is dramatically impacting collections operations, particularly those in the more mature credit markets, where rising unemployment means that previously good customers are struggling to service their credit commitments. At the same time, the fall in house prices and the reduction in mortgage lending means that equity release via re-mortgaging is no longer an 'easy fix' for debt repayment problems.

As a result, lenders, credit grantors and public sector bodies are all reporting significant increases in the number of cases entering their debt collection systems – systems that have seen little investment during a decade of benign consumer credit conditions and are not well equipped to handle the influx of new collections cases.

Traditionally the collections process has been focused on waiting until the point after a customer misses their first payment and then reacting through a series of well established collections processes.

Now, forward thinking lenders are considering whether 'prevention is better than cure' and are making the transition from this reactive collections environment to one that incorporates a proactive stage aimed at pre-collections activity to try and reduce the flow of cases into the collections system.

An essential pre-requisite to this approach is to balance the effort spent on dealing with these customers at risk with the expected benefits of reduced volumes entering the true collections process. To ensure that these benefits are achieved, lenders should implement process changes as a champion/challenger test and on relatively low volumes. Once the business case has been demonstrated, a further investment in pre-delinquency management can be justified and the full benefits achieved.

The paper examines where proactive preventative activity has been shown to add significant value to the collections process.

Want to read more?

This executive summary is taken from the white paper **Prevention is better than cure: the role of a pre-delinquent strategy in managing bad debt**

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