

Global Market
Update No. 3

Current & Future Trends: The Collections Issue



Welcome to the 3rd edition of the Experian Decision Analytics Global Market Update

In this edition we talk about collections, a key focus for most organisations not just early in the new year when arrears traditionally spike up, but more generally as economic concerns continue to prevail.

An effective collections team can make a large difference to an organisation, not just in reducing arrears, but also enabling exploration into new business areas. So how do collections teams make improvements and what is collections best practice?

Most lenders have advanced to the concept that given a limited number of resources low risk customers can be left for a while to self-cure and high risk customers should be contacted early. But how long is 'a while' and how early is 'early'? To determine this, Experian have worked with customers to optimise their calling strategy, achieving significant improvements in cure rates.

Effective use of new technology, be it automatic contact tools that make it easy to repay or use of voice analysis, is obviously another way forward. However, independent research suggests that the role of an experienced, effective collector, and well constructed letters, also remain key collections levers.

Cost management is a key focus for all organisations; understanding the true cost of each collections activity and then evaluating the cost effectiveness through a champion challenger approach can save a lender a great deal. However as with all risk management activities, accurate, timely and complete data remains key, whether it be for making contact, taking the right actions and/or producing reports that will measure the effectiveness of collections.

Want to know more about how to achieve best practice in collections?

Our team of highly experienced, local and global consultants would be delighted to discuss how your organisation can reduce arrears, costs, and/or increase new business volumes cost-effectively, through improved collections management.

We look forward to discussing this with you.

Regards



Nigel Butler
Director, Decision Analytics

Global Consultants Visit

Experian Australia is welcoming our Global Consultants Terry Franklin and Phil Watson in March to visit our clients. If you are interested in speaking to any of these gentlemen regarding a business review, please contact your Experian Account Director.

Optimising self cure strategies

In our past two updates we have discussed how to optimise the return from your Debt Collection Agency (DCA). At the recent November 2011 Berlin Risk Conference, Experian presented on the use of its Strategy Tree Optimisation (STO) technology to further improve your collections strategies with a particular focus on optimising the number of grace days which you should give customers to enable them to self-cure.

The presentation was based on a recent case study that was written following a consulting exercise undertaken with a large South East Asian bank. In order to improve collections efficiency we wanted to maximise the opportunity for good customers to self cure whilst freeing up resources to target high risk customers. The STO software enables you to develop such a strategy by assessing the impact of allowing good customers to self cure whilst targeting those less likely to cure at an earlier stage, thus maximising the overall cash collection relating to costed collections activities.

The client chose to implement a new strategy which was developed in conjunction with Experian to determine an optimal grace period for each customer entering the collections phase. The end deliverable from the project was a segmentation tree based on typical collections variables such as behaviour scores and outstanding balances. The newly developed strategy was then implemented within the client's collections decision engine.

Benefits included increase net return to order balances by two percent with no increase in collections costs; and three percent increase in self cures.

To learn more about this project and the overall benefits of the new strategy download the case study at <http://www.experian.com.au/resources/>

What's new on your 2012 collections plan?

Collections is a primary customer contact point and critical to the continuance of a profitable relationship; however it is a function that is frequently forgotten in the innovation plans of companies. So we thought it timely to go over some of the initiatives your competitors are talking about and implementing in their collections strategy. Food for thought for your 2012 collections plan.

Expand into new service channels for communication and payment:

Interactive automated communication.

Customers can make payments or record arrangements by replying to interactive alerts such as short message service (SMS) and voice message service (VMS).

Online banking website integration with real-time online collectors. Live chat with a collector is triggered when the customer logs on.

Automated teller machine (ATM) collections messages and ability to record a Promise to Pay (PTP). Customers are demanding more self-service options. This reduces the outbound communication costs of the collections team.

Mobile applications for collections. With the rapid growth in mobile applications it is only a matter of time until customers will have the ability to record a PTP and set up collections arrangements on their mobile.

Invest in technology (particularly for strategic collections and knowledge, client relationship and workforce management):

Telephony speech analysis software. Identifies stress, tone and keywords within customers' conversations and prompts collectors to respond in real time.

Data management. It is expected that there will be a 44x increase in data by 2020; 80% will be unstructured data. Data is becoming the new raw material of business, an economic input almost on a par with capital and labour.

Invest in staffing and education:

Collector skills. It is essential to coach and provide your collectors with training in areas such as Neuro-Linguistic Programming techniques and hardship negotiations.

Customer level collections. Educate staff on all products so that they can communicate with customers holistically.

Positive reporting education. Pending the introduction of positive reporting in Australia, collections departments will have the opportunity and responsibility to educate customers on the consequences of payment delinquency on their risk profile. Many collections cases are lazy payers and this behaviour will begin to change when there's full understanding of the consequences. Educate collectors on any changes and the impact to customers.

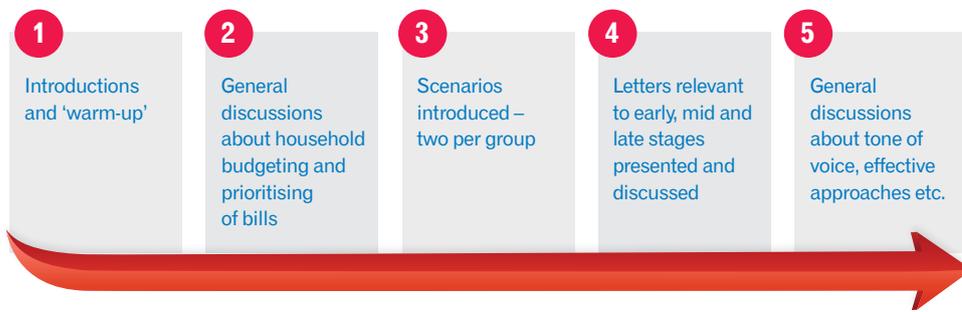
'Show me the money'

The well-known character phrase from the 1996 film Jerry Maguire reaffirms how vital it is to engage in effective use of dialogue, tone, and language, when having often difficult conversations with debtors.

Although this famous catchphrase was far from subtle and the situation in which it was used was far from the typical collections conversation, actor Cuba Gooding Jr. did use his personality, passion and confidence to get his message across successfully. At the end of the day he wanted money, just like we do when making collections calls.

The way in which you communicate with your debtors really does impact the effectiveness of your collections operation. At the heart of any collections operation is the quality of the correspondence and, in particular, the tone of voice adopted with the debtor. What you say is important, but how you say it will also impact on how successful you are with your collections.

To help guide best practice in this area and provide points for consideration when designing and implementing customer letters within a collections strategy, Experian commissioned a program of qualitative research to explore how consumers reacted to the words used to communicate with them about their debt.



Show me the money: Focus group discussion process.

The research employed two focus groups of varying demographic backgrounds. Each were shown letters from different stages of the collections process. They were a mixture of actual letters in use and letters drafted by a specialist communications consultant to reflect alternative 'softer' and 'harder' approaches as a means of eliciting opinion and reaction from the groups. The variance in tone of voice of the letters was considered by the groups to help identify the aspects deemed to be most appropriate and effective.

Research key findings:

Appropriate tone, clear consequences and a conciliatory approach are effective in the early phases of collection. Support should be offered wherever possible to aid those in difficulty.

Fees/charges, negative credit ratings and third party agents are key motivators.

After three months a strong emphasis on serious action is appropriate, including reference to legal action or debt collection agency.

Letters should avoid an informal and patronising tone.

Long letters are often not read, resulting in important messages being missed.

Use of the colour red to highlight one specific point is effective however more than one point is counter-effective.

In summary, short and concise letters stating what is owed; what the debt relates to; and the consequences of non-payment were found to be highly effective in the collections process. In order to truly evaluate the impact of changes made to collections letters the implementation of champion challenger testing should be used to provide an accurate measurement in a controlled environment.

To learn more about this subject please contact your Experian Account Director.

The lost art of Activity Based Costing (ABC)

Activity based costs - it may be difficult to get more money from customers but can we get it spending less?

The answer is 'yes', if there is an appropriate analytical understanding of what each activity derives in terms of response, payment or self service resolution. ABC is a component of the analysis and reporting that is necessary to understand where a challenger strategy is proving to be more effective than a champion; this may mean that collections rates are the same but costs are lower or the same, therefore collections performance is stronger. Collections strategies that do not segment based on risk and value are

at risk of costing more than monies collected or owing in many collections cases. Either way, the evidence must be easy to capture and conclusive.

One of Experian's clients suggested that their true cost for collections activities were:

\$13.50 per letter (via print vendor)

\$25.00 - \$35.00 per phone call (dependent on inbound versus outbound)

Collections champion/challenger models can test risk profiling, strategy effectiveness or activity effectiveness. To accurately compare strategies or even outsource providers, organisations need to understand the true cost over the benefit of each action. For example if comparing the use of SMS versus letters, the cost of each activity should be modelled against the success (i.e. payment achieved).

How to track and reward collections staff

Collections staff should be focused on delivering against measures that they can actually contribute to. The number of calls, conversion to promise and payments kept, should all form part of the metric set. Ultimately the cash collection target they have to achieve should consider the influence of these factors. If the measurement of the agent/collector contribution is not appropriate or aligned to what is actually achievable then there is little or no chance of an associated incentive program working. Generally these have to be transparent, achievable and linked to improving performance metrics. Ideally the targets must be sustainable and spread over the year, e.g. monthly bonuses aligned to achieving and exceeding the set goals.

Incentive schemes should always include factors including standard collections measures (Promise to Pay, Promise Kept Rate) but additional factors such as customer call quality, absenteeism, adherence to shift, punctuality, etc., should be included in any collector matrix. Call abandonment rate and service level should also be included in the collector's review. These aspects can assist in driving the right behaviours as well as strong collection performance.

The ability to use proper reporting is critical for any incentive or staff evaluation programs.

Top 10 back to basics for collections

1. Valid customer and account data: Ensure that you have accurate and regularly updated data. You cannot collect from debtors you are not able to contact!

2. Accurate reporting and capture data: Lack of reporting can be a disaster. If there is no visibility, the current state cannot be measured and therefore not be improved. Without focused and business critical reporting including commentary produced on a regular basis the business cannot assess its position, make strategic decisions or operational plans. From a corporate perspective there are regulatory requirements to report certain data. There are responsibilities to stakeholders and investors to demonstrate that business plans are being delivered.

3. Appropriate skill set allocation: Well trained collectors and systems that automate workflow are required to enable the business to implement efficient and effective strategies and processes. Expensive collectors should only be called upon when absolutely necessary.

4. Collector incentive programs: Have transparent incentive schemes with clear and concise presentation within the collections area, ideally in real time and in a way that collectors acknowledge and are motivated by.

5. Segmentation and modelling: Use risk assessment and grading or analytical scorecards to discriminate across the base and determine strategy.

6. Champion challenger activities, segmentation and strategies: If you have not developed the right strategy and processes then collections performance will be poor. Test and challenge current thinking regularly in order to improve performance.

7. Multiple communication channels: Utilise all communication channels available. Using a blended approach businesses increase their ability to make first time contact, both reducing cost to collect and improving customer experience.

8. Optimisation is at the leading edge of collection development and offers significant performance improvement for those organisations that have adopted the capability.

9. Visibility within bigger business: Some businesses fail to understand the importance of collections and the department can often be seen as the unpleasant end of the business. This can be demoralising for staff and strategically short-sighted.

10. Isolating fraud: Recognise fraud and ensure that it is not seen as a collections activity. You cannot collect debt from a fraud so it should never be included as part of the collections department target.

How do you measure up?

Businesses can measure the effectiveness of their current collections operations by carrying out a diagnostics check through a business review. Experienced business consultants carry out hundreds of these types of reviews a year across the credit lifecycle to provide clients with detailed analysis on where they are today through; benchmarking, highlighting gaps and opportunities for improvement, and providing a strategic roadmap to achieve leading practice - essentially enabling the business to implement a program of quick wins and transformational change.

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How to achieve the business review benefits:

1. Determine how **value management** fits into the context of the company's corporate and business unit strategies.
2. **Benchmark** against leading practices within the industry and peer groups.
3. **Identify gaps** between current capability and desired future state, using a comprehensive capabilities assessment framework.
4. **Define the opportunities** which will generate greatest returns, including quick wins.
5. **Create a roadmap** that clearly defines the strategy, process, organisation, knowledge and tool elements required to implement.
6. **Develop a business case** for the investments, using a ROI-focused approach.
7. **Gain executive alignment** for a strategy and implementation program.
8. **Build a partnership** to execute the implementation plan and stay close to the business to ensure the benefits are realised.

We can help

Experian Consultants are always at hand to provide advice and assist with business reviews.

Your Consultants in the region include:

1. Sacha Close

Business Consultant

Sacha has over 12 years experience in providing business solutions through various applications and software. During the past 6 years Sacha has been actively involved with Experian as a Collections and Debt Recovery Consultant in Australia and New Zealand, primarily with Tallyman solutions and projects. She has led collections/recoveries solutions and Tallyman business design for top tier Australian and New Zealand banks and telcos.

2. Roy Francis

Business Consultant

We welcome Roy Francis who recently joined the Australian team from our Decision Analytics team in the UK. He brings over 10 years of Tallyman training and consultancy experience. Roy has been keenly involved with many of our large UK clients such as; Barclays, Santander, African Bank, Sberbank, BNP Paribas Fortis as well as telcos.

3. Richard Smith

Trainer – Tallyman

Richard recently moved to Melbourne from our UK Decision Analytics team, bringing 7 years training experience, 3 of which focused on Tallyman and collections. Utilising classroom and e-learning techniques, Richard has travelled globally delivering training to regional teams and high profile clients spanning many sectors, including banks, telcos and utilities.



Let's talk about it

When is the best time to credit default list?

"The timing of when to default list should recognise the credit risk and exposure and be compliant with the Credit Reporting Code of Conduct, i.e. at least 60 days since payment was due must have elapsed. Customers that have intention to pay but are unable to, due to a change in their circumstances, should be approached in a different way; assistance and loss mitigation have to be balanced appropriately, typically through a risk stratified assessment of the collections portfolio so that strategies can be tailored accordingly.

Property held as security with little equity may not be best pursued through a rapid repossession process, particularly, in a stagnant housing market, where nominal payments in the short term with an eye to a resolution as circumstances change in the future. These forbearance measures have been more readily adopted in most mature mortgage / home loan markets around the globe post the global financial crisis.

Alternatively, a small unsecured loan showing early signs of problems where the customer has rapidly deteriorating credit risk is likely to be more appropriately targeted through early default and action to recover."

Terry Franklin

Senior Business Consultant – Experian Decision Analytics Global Consulting Practice



About Terry Franklin

Terry has 19 years of experience in the credit and collections industry spanning across the continents: Europe, North America and Australasia, with an in-depth knowledge of the Far East. He also has extensive experience in finance, public, retail and utility sectors including four years focusing on business process outsourcing within collections environments. Terry has developed a diverse business background with a keen appreciation of the effective deployment of systems, people and processes within credit management and collections operations. He will be consulting in Australia in March.

Upcoming Global Events

| Date: | Event: |
|----------------|---|
| February 14 | Lending to SME Portfolios: Key Challenges, Insights & Strategies. GCP Knowledge Sharing Webinar*. |
| February 21-22 | iStrategy Conference including Experian workshop 'Customer Engagement Across Multiple Channels'. Sydney, Australia |
| March 3 | Pre-collection strategies: Revolving Credit Strategies to Identify and Act on Unprofitable Customers. GCP Knowledge Sharing Webinar. |
| March 13 | Customer Value Management & the Analytical Advantage. GCP Knowledge Sharing Webinar. |
| March 27 | Marketing Association: Smarter Data Conference. Auckland, New Zealand. Nigel Butler, Director of Experian Decision Analytics, A/NZ has been invited as a guest speaker. |
| June 14-15 | Experian International Telecom Forum. Rome, Italy. |

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