



VALUE-BASED DEBT MANAGEMENT

Driving Value from Collections through Analytics



Deteriorating economic conditions and growing consumer indebtedness are forcing a change in the perception of collections and recovery operations. As focus shifts from growth to consolidation and the full customer life-cycle comes under scrutiny, organisations are finally realising the tangible value opportunities embedded in their collections activities. Having received little of the investment lavished on front end processed in recent years, collections areas have become an untapped mine of potential benefit. Lenders need to join debt specialists in viewing their collections books not as a cost centre, but as a genuine value generating part of their business.

As illustrated in last editions 'Questions Corner', the process of extracting these benefits begins by understanding and challenging the current situation: Is maximum value being extracted from non-performing accounts? Can workflows be optimised and prioritised? Is outsourcing or debt sale being used effectively, with the correct segments being retained to work internally? Fundamentally, is the value of the collections book fully understood?

To answer these questions, and to derive the appropriate actions to drive out the embedded value, it is necessary to embrace true value-based debt management. The data generated from collections activity is an analytical goldmine, and the techniques applied elsewhere in the customer life cycle – automated streaming, statistical modelling, optimisation and valuation – can all reap huge benefit here.

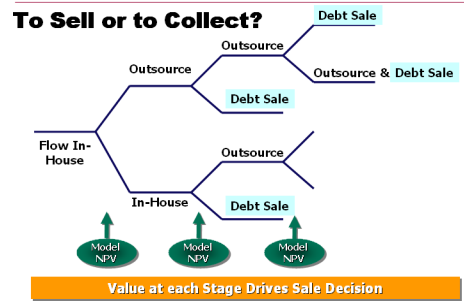
Achieving this requires a clear understanding of the portfolio and arrears performance, leading to optimisation of the collections and recoveries processes through analytics. There are a number of steps necessary to facilitate this:

- Data from the collections systems should be integrated into a datastore to allow analysis and performance reporting. This will underpin collections performance, as performance focussed MI supported by more detailed analysis are key to driving performance from the collections operation. Finding the right structure for the datastore and definition of MI requirements will determine the success of this step.
- Trend analysis and portfolio reporting to monitor the quality of the portfolio will provide insight into operational performance. The fact that operational performance can be impacted significantly by portfolio quality and external factors is often not understood and the influence of these needs to be factored into measurements of collections effectiveness. In addition, arrears forecasting & provision modelling not only support budgeting and portfolio management, but also help set targets for the collections team. Indeed making a strong link between collections targets and provisions budgets ensures good alignment across the business to risk management goals.
- Using this analytical basis will allow improved staff performance measures to be set that are realistic and fully understood and aligned to portfolio goals. This in turn enables effective performance management and recognition to boost activities and engender a culture of achievement.

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- As well as ensuing staff development, it is important to drive continual improvement of the core engine governing the collections processes and strategies. Scoring and segmentation methods can drive account treatment strategies aligned to expected account behaviour. In addition they can be used to prioritise workflow to the right people at the right time, with activity-based costing allowing the cost vs return trade-off to be calculated for each activity.

- True understanding of segment value allows debt to be dealt with in the way which brings the most value back to the business. The alternatives of outsourcing debt with external agencies, debt sale, and working debt internally can be understood from a value perspective and the option most aligned to business goals chosen.



- Finally, the loop needs to be closed between collections performance and credit sanctioning and pricing decisions taken by the business. The risk vs reward equation which is used to determine lending strategy can be improved significantly by maximising the value of collections activities, thereby giving the business additional flexibility in setting its credit policy.

By embedding analytics and value management techniques into the collections stage of the customer lifecycle, businesses can start to understand the true worth of this part of the business and make informed value based decisions regarding collections strategies and investments. This may look distant and difficult to attain, but the rewards are undoubtedly worthwhile. To be the frontrunner in this field and reap the full commercial and competitive advantage, organisations must fast track themselves along this development path to uncover the full potential of value-based debt management.