Euristix

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Hello

Welcome to the March 2009 edition of Euristix Insight, our newsletter which seeks to deliver unique commentary and information in the changing world of credit and portfolio management.

As the year continues to bring challenges and issues, we try to consider some of the opportunities that are available to organisations in these trying times. Our lead article discusses ways to drive real benefit from the time and effort committed to Basel 2 development, while our achieving best practice piece considers the huge benefits available from optimised capacity planning in the DCA environment. We do inject a note of caution however in our Questions Corner, where we ask you to consider the implications of deteriorating forecasting models and the remedies required to combat this.

Please contact us with any questions. We also welcome any feedback you may have.

Kind regards,

Chris Kemp.

In this edition...

Extracting Value from the Basel 2 Framework - Given the huge investment that has been given to Basel 2 compliance, it is surprising how many lenders are failing to leverage the full benefits of these tools. Our lead article discusses the many ways to derive additional value from you Basel 2 implementations.

Questions Corner - With the past no longer resembling the future, are your forecast models crumbling around you? What are the signs, the impacts and the solutions for your business?

DCA Capacity Planning - As settlements dry up and payment plans fall in value, DCAs are turning to analytics as a key tool to protect their profit. But while the debt and debtor side is seeing increasing exploitation and finesse, many DCAs overlook a key component in the process; their own collectors. Our Best Practice article discusses how to optimise resource allocation to maximise returns on serviced debt.

Extracting Real Value from a Basel 2 Framework

With lenders focussing their attention on achieving compliance and getting all the various components in place, few have really considered how Basel 2 can help them. The result of a successful Basel 2 implementation is a detailed and comprehensive toolset that has taken huge investment to create. To use this purely for compliance is to miss out on real opportunities to derive value from this framework.

This issue's lead article describes some of the ways that Basel2 and its components can be integrated within the business process to generate real value. Using Basel 2 above and beyond simple compliance allows a lender to leverage additional benefit from the efforts put in to building their solution.

For more detail on exploiting the Basel framework in the wider business environment, please see the **full article here...**

Questions Corner - When Forecasts Fail

"The past will be a good representation of the future". This tenet underlies a huge array of forecast and modelling methodologies used in the credit industry, from scorecards to cash curves. Sadly, in the current climate, it is nonsense! As carefully crafted forecasts, budgets and business plans collapse, with ever-growing deviations between 'actual' and 'expected', consider the following questions about your 'actual' and 'expected', consider the following questions about your business:

- Are you carefully monitoring the forecasting models in your business, to understand the deviations from expectation?
- Have the methodologies, data and people producing your forecasts been challenged to ensure they are best practice and responsive to the economic and market changes?
- Do you understand the impact on your business that will result from current or future changes in economic and operational performance?
- Can you produce accurate and flexible stress tests on your forecasts to cover numerous potential scenarios? Do you drive you business decisions from this information?
- Do you have the tools and resource available to rectify the problems you encounter? Or are you discarding faulty forecasts and simply 'flying blind'?

In the next edition of Euristix Insight, we will provide our view on how best to resolve some of the issues with malfunctioning forecasting models. In the meantime, if you wish to know how Euristix can help you in this area, then please contact vincent.bordes@euristix.com

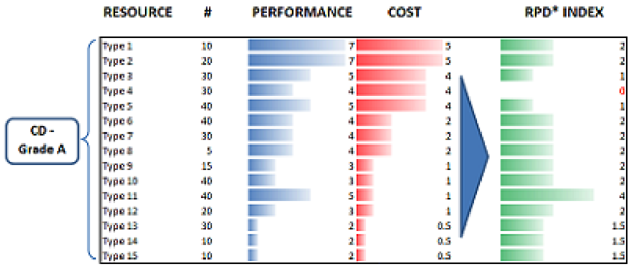
Achieving Best Practice - Capacity Planning in DCAs

Problem - The tightening of lending criteria and reducing house equity is making it almost impossible for distressed borrowers to access additional credit to pay off existing debts. For DCAs this means that their cash curves are collapsing, with full and final settlements disappearing and payment plans generating much lower amounts than before the 'crunch'. For many it is now more important than ever to maximize what cash flow they can glean from debtors while remaining compliant.

Approaches - More and more DCAs are realising the huge benefits available from taking an analytical approach to collections, with most looking to use these tools to drive debt segmentations and collections strategies. However, despite the rich data available and the huge potential for benefit, the 'collector' component of the process has received far less attention than the 'debt/debtor' side. Most DCAs allocate debt to their collectors in a uniform way, with little understanding of the variability in performance resulting from the collector-debt/debtor pairing. The true value of optimising these allocations remains untapped.

Best of Breed - To increase returns, minimize costs and generate maximum profit in this challenging market, it is necessary to optimize strategies not only in terms of debt treatment but also in terms of allocation to collector. Even a simple scheme to match debt and debtor types with the most appropriate collector can increase returns by over 10%, driven both by increased initial success and improved 'stickiness' of payment plans.

The first step along this path is to understand the data available on your collectors, both from internal data and external sources such as standard psychometric profiles. This can be used to derive a robust collector segmentation driven by variables such as experience, personality type, performance, gender etc. which can be as coarse or fine as the data allows. This feeds into the development of strength models aligned to the debt and collector groups, which can factor in costs where available. This analytical view of the real performance of collectors on debt types can bring great insight into the opportunity cost if using collectors in a certain way. A highly profitable collector could still represent a huge missed opportunity if they are being used sub-optimally!



The optimal capacity plan for any DCA will evolve as their debt and resource pools change, but the benefits of this approach over a non-analytical, operationally driven set-up are immense. Starting along the road to resource optimization, using simple tools and champion/challenger implementation, is an easy step that has the potential to change the entire way a debt servicer performs. For more information or for a free workshop, contact paul.matthews@euristix.com.

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