EXUS COLLECTIONS

Collections & Recovery Meeting the Needs of a Changing World

Whitepaper

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Introduction – the aftermath of the credit crunch

- Western banks have much to do, post financial crisis, to mend their balance sheets and reputations
- Customer indebtedness has grown recently and NPL levels have risen, in both mature and expanding markets.
- Banks everywhere recognize that reducing credit losses is key to improving profitability
- Operations, and the technology to support those operations, will need to be significantly more flexible

Several years on from the world financial crisis, banks are still having to deal with its consequences. Besides the financial impact and the damage to their reputations, banks in Europe and America have had to learn to operate in a new world – a world of flat economies, reduced credit availability and rising levels of customer debt. Non-performing loans have increased and customer indebtedness, in general, has been seen to have a significant effect on the banks' net profitability. Increasing collection costs, growing bad debt write-offs, and the requirements for higher provisions against loan losses have all combined to make managing credit loss a key business driver, with a direct impact on profits.

But the increase in non-performing loans is not a phenomenon that is only seen in Western banks. In the medium term, it is clear that NPLs are also set to rise, for a different set of reasons, in the expanding and emerging economies of Asia and Latin America. A recent Ernst & Young forecast estimated that NPLs would continue to increase around the world, rising by 16 percent in 2013, from 5.6 percent of all loans to 6.5 percent.

The realities of an increasingly complex business environment, where many customers have multi-product, multi-debt relationships with their banks, dictate that institutions must move quickly toward an integrated, customer-centric approach to the management and collection of delinquencies.

The rise in NPLs has made credit risk management an urgent issue – not just for the banks, but for regulators and auditors, too. Access to capital, from wary shareholders or depressed financial markets, has been limited, and banks are having to develop a more balanced approach, moving away from business models that relied on high levels of liquidity funding and ready access to low cost capital. Within the new business models, there is a need for more proactive and effective collection and recovery strategies, making full use of today's flexible, responsive operational and IT systems to provide the agility to respond to new and emerging risks in the loans market and the functionality to deal with legacy risks inherited from earlier years.

The global picture – increasing demand, increasing levels of non-performing loans

- Loan deterioration is everywhere in the West, where markets are traditionally characterized by financially stable banks with weak core capital bases that now need to grow. Improved arrears and collection processes are needed to improve banks' balance sheets and their ability to lend

- Emerging and less mature markets are showing the strongest growth in lending demand and have the opportunity to avoid the issues currently faced in the West by immediately deploying more effective operational processes and technologies to manage arrears and collections

In Europe and North America, where financially stable banks often have a weak core equity capital base, non-performing loans are exacerbating an already difficult situation. Recent research by the Institute of International Finance (January 2013) has pointed out that the global index of non-performing loans indicated an increase in the volume of NPLs for the sixth straight quarter (i.e. a diffusion index value below 50) (see Figure 1). This worsening situation will need to be addressed through the introduction of improved arrears and collections processes, which can help to limit the impact on banks' balance sheets and lending capabilities.

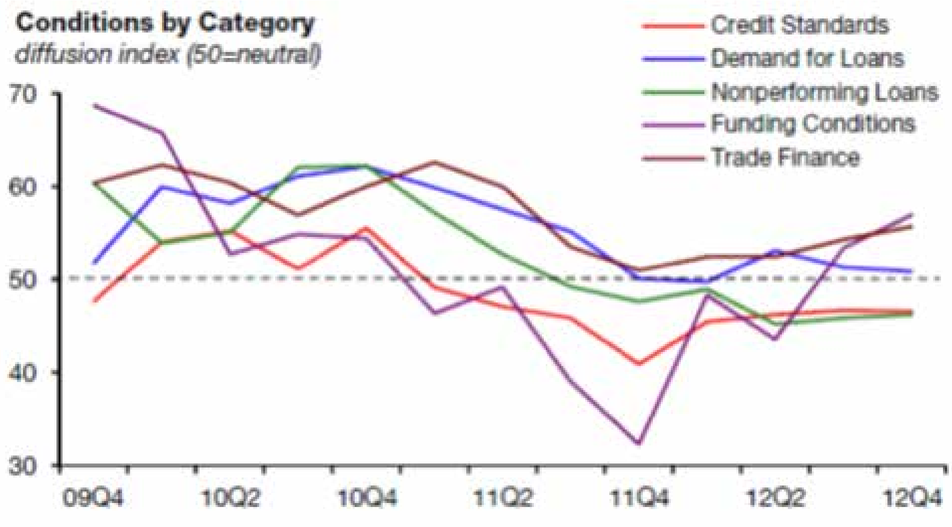

Figure 1: Trend in Credit Conditions (Source: Institute of International Finance)

The overall loan situation for most banks in expanding markets outside the Western Hemisphere is quite different. Demand for loans is growing globally (see Figure 2) and these banks now have the opportunity to take advantage of a new generation of arrears and collections operating and technology systems that can help them sidestep some of the challenges that have troubled their European and North American counterparts.

Sound risk management strategies – and the systems to support and implement them – are just as important in parts of the world where stronger economic growth and widening demand for commercial and consumer credit currently present a more vigorous and expansive business background. Banks in these markets can benefit from skipping the intermediate stages in the evolution of collection and recovery and moving straight to the next generation systems that will help them achieve reduced operating costs and consistently higher collection rates.

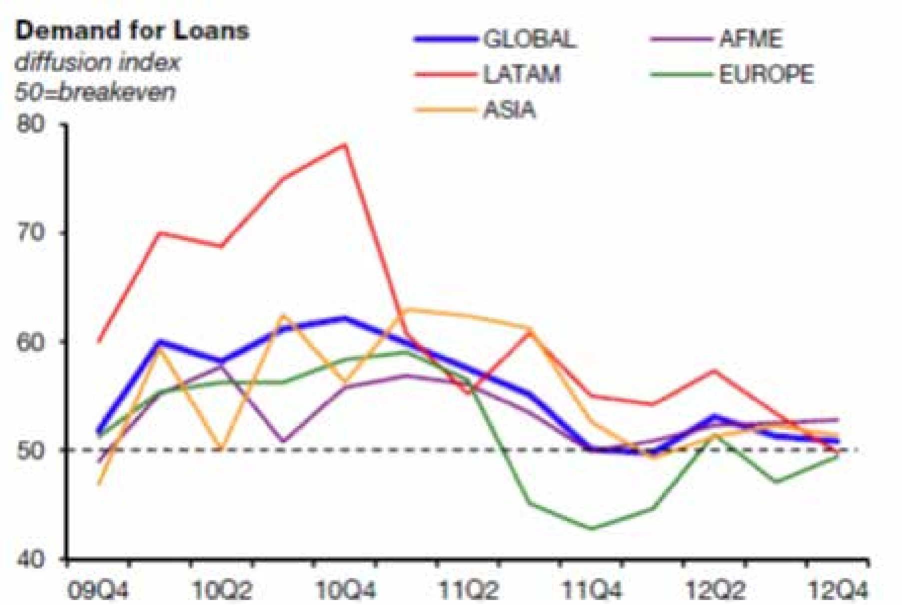

Figure 2: Regional Trend in New Loan Demand (Source: Institute of International Finance)
Western banks' responses have been quick, but not necessarily effective

Western banks' responses have been quick, but not necessarily effective

- Banks were quick to respond to the credit crisis, improving the quality of new lending by lending only to low risk customers. Lack of market capital and lack of liquidity in wholesale markets as a result of the credit crunch were contributory factors in forcing this change

- In many cases, such as commercial mortgages, the value of collateral has become less than the value of the loans involved. As a result, banks have tended to avoid calling in or writing off loans wherever borrowers have been able to service interest payments. As collateral values are still not recovering, there is pressure on banks to write down or write off debt in their loan books to reflect market reality. The impact of these write-downs and write-offs will be a reduction in the capital available for commercial operations such as new loans

In the West, at least, banks have been forced to take a sharp look at their policies and procedures on loan losses, loan provisions, debt collection and recovery. Lack of available capital internally and illiquid wholesale markets contributed to banks' responses to the financial crisis, which chiefly consisted of improving the quality of new lending by taking on less risk. Banks' processes for evaluating new credit business have become more exacting, though they are still not always consistent across different lines of business.

Banks were quick to respond to write-downs and write-offs of their trading losses in the aftermath of the financial crisis in 2007. But they were far slower to recognize the losses arising from reductions in the value of collateral on secured loans and from the lack of liquidity in many business sectors, including commercial and retail property and retail sales and distribution. Because banks have been unable to dispose of collateral at fair market value, they have been reluctant to call in loans in cases where the borrower has been able to service the interest costs at some level.

The initial view was that the value of collateral had suffered a temporary reduction, which would be rectified when the economic cycle brought new economic growth, accompanied by corporate and retail demand. But the Western Hemisphere has now seen tough economic conditions for more than five years, and there is no immediate sign of this situation changing.

Regulators and auditors, with some encouragement from central banks, are now making renewed efforts to ensure that banks reflect the true, current state of the credit risk in their loan books by making adequate prudential provisions, write-downs and write-offs. This, of course, reduces the amount of capital a bank has available for its operating activities.

A new focus on credit risk is needed

- Banks are under pressure to improve their risk functions by, for example, improving the management of loan arrears, loan losses and write-offs through the use of systems that can more accurately monitor and predict loan performance

- Regulators are asking for greater transparency into the health of banks' loan books with analysis to highlight those segments of greatest risk

- Banks' view of debt collection has shifted toward a focus on more coordinated and effective processes and workflows to try to address issues earlier in the collection life cycle

- Basel III is a compliance requirement in many global markets.

Banks are now under intense pressure to improve the governance of risk functions, and, of course, improved collections start with improved customer acquisition and loan origination processes that identify and manage risk at the moment of its creation. Potential improvements later in the loan life cycle include better risk management of loan arrears, loan losses, and write-offs through the deployment of systems and modeling functions that identify potential problems and enable collection and recovery processes to be activated earlier in the deterioration of loan performance.

Banks are recognizing that the major problem with collection of debt lies not in deciding to collect the debt but in doing it in an effective, realistic and coordinated way. Timely, stringent, and well-established collection schedules will identify arrears well before they reach the critical point where collection becomes less likely. Good accounting practices will also allow the identification of recurrent delinquency.

Regulators' concerns over loan losses and collection and recovery stem from the recognition that an increased capital base is needed as a buffer against systemic market risk. Regulators are demanding more frequent and detailed reporting on the health of loan books, particularly where a bank is exposed to weak commercial sectors or, in the case of retail banks, specific postcodes, locations or demographics within the population.

Basel III stipulates that banks, in many markets, must increase the amount of core equity capital they hold. More core equity capital is now seen as necessary to ensure that banks can withstand the stresses of adverse economic cycles, which erode the confidence of depositors and threaten the stability of the banking system, bringing with them deteriorating loan portfolios and increasing the requirement for loan loss provisions. Banks can improve the quality of loan loss provisions by eliminating flaws in their processes and models and getting rid of inaccuracies that increase the requirement for higher capital buffers. This might involve, for example, improving elements of the loan origination process by making it easier to add new parameters to credit policy definitions, improving the quality of provisions, and introducing estimates of loan loss provisions throughout the economic cycle.

New regulations and shareholder expectations are driving the new focus on risk

- Banks can improve their position by reducing flaws in existing processes (e.g. increasing the accuracy of data to reduce the level of capital buffer required to the minimum)
- High NPL levels affect a bank's required loss provisions and restrict its lending capacity
- Good credit risk management requires well documented policies and procedures for loss provisions and write-offs, and collection and recovery practices.

Improving risk management across the bank requires centralization of risk management to enable the near real-time collation of relevant data from across the bank.

Banks are well aware these days of how NPLs affect both balance sheets and regulatory requirements. For example, every US$100 million of loan loss provisions reduces a bank's lending capacity by US$6-7 billion, depending on the quality of collateral held. Financial institutions have to improve their credit risk management, and well documented policies and procedures setting out how they identify and assess loan loss provisions and write-offs and handle debt recovery and collections must form an integral part of this.

Risk management and reporting demands immediate availability of data on a groupwide basis, to underpin a prompt and consistent approach to the management and collection of debt arrears. Data needs to be centralized, as far as regulation and tax rules permit, and loans need to be continuously tracked and monitored through to maturity. Staff in risk management functions also need to be alerted immediately to any events that could trigger or increase loan losses and loan default.

Lastly, auditors are under both self-imposed professional obligations and regulatory pressure to ensure that institutions are being sufficiently prudent in their approach to such loan write-downs and write-offs. There is always an element of judgment involved, but this judgment must be supported by a well-documented and auditable document trail that demonstrates realistic loss provisions and recovery assumptions by the directors.

Re-thinking practices around loan repayments

- The use of appropriate collection scoring and segmentation techniques is essential for efficiency and to maximize the number of self-cure accounts.
- Stringent collection practices will also identify likely recurrent delinquencies and allow adaptation of processes to reflect these situations

Financial institutions face the challenge of managing growing numbers of delinquent customers, while holding or cutting operational costs. This will mean using collection scoring techniques to assist in the early identification of problematic cases and to impose a strong barrier to customers reaching recoveries, where direct and indirect management costs are much higher. Segmentation of collection activity is a key success factor for efficiency and productivity, especially in retail banking. The concept of segmentation is derived from the evidence that new delinquent accounts or customers do not all need the same treatment. For example:

- Some cases, such as non-starters, accounts suspected to be fraudulent, and customers subject to research or skip tracing, will require specific management.
- Certain types of products, such as secured loans, and certain types of customer will also require specialised handling.

Different collection strategies are needed for different account or customer segments, though each segment will share the same characteristics or levels of risk. A statistically validated ad hoc segmentation model is required for risk segmentation. The segmentation strategies that are chosen must maximize the number of self-cure accounts (to avoid unnecessary cost and customer irritation), identify the accounts that need to be worked more intensively (to avoid escalations to higher delinquency levels), and generally enable more to be collected without additional effort.

There are two main problems with collections. One is the failure of some banks to implement pre-emptive accounting processes that will flag up difficulties before a loan has become seriously delinquent. The other is simply a lack of effective recovery techniques. While the history and behavior of each NPL and collection may have unique elements, the response of the collection process must conform with agreed policy. Collections must follow a consistent, documented pattern to allow a true and fair view of loan provisions, losses, and defaults and to meet reporting and accounting standards.

Customers are always far more likely to respond positively to a steady, calm approach than aggressive action from the bank once a loan has reached delinquency. A measured and professional approach to arrears and collections will include a history of the event and an audit trail of the processes followed to address the default, avoiding negative preconceptions about the methods employed for collection and encouraging open discussion about how the debt can be repaid. Following a consistent but flexible process helps avoid misunderstandings and increases the likelihood of repayment, while preserving the customer relationship.

Seven steps to best practice

Recent events have put collection and recovery departments to the test and forced them to become more inventive. The classic motto "If you don't call, you don't collect" is still as true as ever. But simply ensuring the call is made is not enough in an increasingly competitive arena, where customers often have debts with several financial institutions and simply cannot satisfy all of them.

The banks that have risen to the challenge have either restructured their internal Collection & Recovery (C&R) organizations or rethought their collection strategies – usually both. The approaches that have emerged from this period of intense pressure can be summarized under seven main headings.

These are the best practices that support today's most successful collection and recovery operations.

1. Create a single collection management authority and one centralized collection organization:
To ensure consistent collection policy and activities – and real accountability – the most successful banks have organized their collection management under a single authority, from the start of the collection process through to recovery or abandonment. Focusing on one central collection center, with or without decentralized regional/local centers, makes industrialization easier – and industrialization is a key factor in effectiveness and cost control. Management, control of activity, and the ability to introduce quick changes are also improved. Branch staff may be involved, but only in relation to specific customers or product segments. Collection policy is defined centrally, followed up by collection management to ensure efficiency. Regular network training sessions are essential.

2. Employ and train dedicated collection staff:
Most banks have realized the importance of training specialized and dedicated personnel for collection and recovery operations, rather than having non-specialist bank staff handling collections as a subsidiary task, as often happened in the past. Experience during the recession has taught banks that the internal organization of the collection department directly affects its performance and several best practices in this area have been developed. For example, it is now clear that a supervisor to collector ratio of 1:15 works well, and that there should be one dedicated trainer for each group of 75 to 100 collectors. It is also clear that all roles and job descriptions – from collection manager to skip tracing agent – need to be clearly defined and documented.

3. Improve capacity planning:
Estimating the number of collection staff needed to implement C&R strategies has always been part art, part science. These days, however, it is a necessity, rather than a luxury. Many banks now use regression modeling to link forecasting and capacity planning practices when evaluating collection call center performance, utilizing metrics like the number of accounts to be worked, account-to-collector ratios (ACRs), seasonality, and personnel shift records. People are the most expensive item in the collection center's budget, so an organized approach to staffing is critical.

4. Use customer/account analytics to segment the delinquent portfolio:
In order to make the right offer to the right customer at the right time, the debt portfolio must be segmented, generally through the use of customer/account analytics. Portfolio segmentation may involve basic metrics (product type, account balance, bucket, months on book) or more complex metrics reflecting past customer or account behavior, such as kept promise ratio, recidivist/non-starter flag, or time since last max bucket reached.

5. Adopt a hybrid account/customer-level approach:
The choice between account-level and customer-level approaches to collection has been the subject of much debate. Both have their supporters in the world of collection managers. But the evidence is piling up that a hybrid approach yields the best results. Collection strategies can be account-based or customer-based, or both, depending on the segmentation. The account-based approach (involving separate handling of each delinquent account, with no view of a customer's other accounts with the bank) facilitates industrialization and global effectiveness. The customer-based approach (taking into consideration any other customer accounts with the bank) places more emphasis on the customer relationship. Account-based strategies are often preferred, as they are more efficient in terms of amounts collected and collector productivity. In a retail banking environment, however, a customer-based approach may be more appropriate for specific products, combinations of products, or types of customers requiring special treatment, as determined by the segmentation process. These cases are usually assigned to specific queues, with specific collection strategies and handled by particular individuals.

6. Develop multiple contact channels:
It is becoming harder to reach customers by telephone, yet the amount a bank recovers is directly dependent on the number of customers it manages to contact. This has made creditors look for alternative, innovative, methods to improve contact rates while managing the relevant costs. Methods used include outbound autodialers (with power dialing and predictive dialing), IVR or VRU (voice response units), text messaging, email, web-based collection portals, and mobile transactions.

7. Exploit the potential of technology:
The common ground shared by all those banks that have managed to turn the credit crisis to their competitive advantage is a willingness to invest in technology. To design, enforce, and measure successful collection strategies, banks have invested in specialist systems that support their full portfolios in terms of:

Time:
From pre-collection to early collection to the pre-legal stage, followed by legal proceedings and eventual write-offs (and sell-offs) of portfolios, a consistent strategy is best accommodated by a single system.

Product line:
Retail products (consumer loans, open loans, car loans, housing, credit cards) with or without collateral, small business loans and corporate loans, factoring, leasing, and other products should all be covered by a coherent strategy, implemented through the use of a single system.

Location and organization:
Centralized or distributed management, based on a single system, is the approach that best serves the single authority principle mentioned earlier, for one company or for a group.

Current software solutions cannot meet banks' present and future needs

- Current technology solutions do not meet the needs defined. This is evident in the impact seen to banks' balance sheets and levels of loss provision

- Today's banks use a mix of elements for different loan products across the different stages of the collections process. Many solutions are home-built and may even be partly reliant on desktop technologies such as spreadsheets. Others are simply add-ons to other strategic solutions but offer only partial functionality.

Banking institutions have been working with processes and solutions that are inadequate to deal efficiently with everyday business requirements, quite apart from the structural impact of the financial crisis and the regulatory responses it has provoked. The scale and speed of response required to address the increase in loan losses, provisions and arrears has exposed the inadequacy of today's arrears and collections services.

Banks are frequently working with different solutions across different parts of the product portfolio to manage, report, and follow up arrears and defaults. Some use applications built in-house for specific line-of-business credit products, which will always have limited capabilities and flexibility beyond the purposes for which they were designed. For example, core tracking of retail loans and overdrafts is frequently a bolt-on application to core banking transaction processing systems. Some banks even use semi-manual processes based on ordinary spreadsheets. These were usually improvised many years ago as quick, low cost tools to support credit expansion, and they now fall far short of today's operating requirements.

- Broadly speaking, the systems in use today have failed to satisfy the business need to manage credit risk through systematic control of loan default and arrears tracking.

- Using different solutions for different products and lines of business has led to low productivity, poor collections results and high operational costs.

- Poor assessment and management of credit risk has forced banks to make higher provisions for loan losses.

- Responding slowly to loan arrears has led to lost revenue and limited scope for new lending as a result of reduced availability of capital.

- Inconsistencies in policy enforcement with regard to credit exposure and credit defaults have threatened efficient collection and prejudiced customer relationships.
- Lack of overview of credit risks has exposed banks to brand and reputational damage and potential regulatory sanctions, including fines.

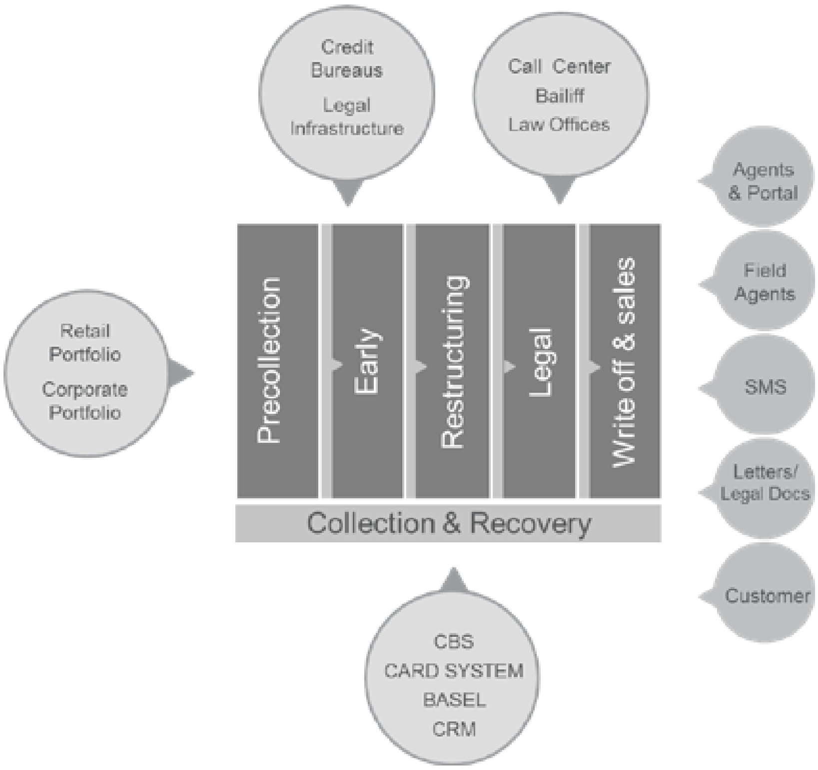

Figure 3: Collection & Recovery Solution Architecture

Limitations of current collection and recovery solutions

- The introduction over time of solutions for different products and different parts of the collection cycle has left banks with inefficient, inconsistent, and often ineffective collection support structures. These systems rely on data import/export and high levels of IT intervention are required when any changes are needed
- The fragility of these systems is exposed by the increasing need for rapid change in collection processes to ensure optimal collection rates
- Future solutions cannot rely on IT support if changes are to be made quickly. The next generation of collection tools must be focused on the end-users (the collection managers), empowering them to directly define processes and workflows
- Reducing risk and cutting costs requires banks to standardize, following consistent, repeatable processes and ensuring that resources can be applied flexibly

The collection and recovery solutions seen in banks today have often been deployed piecemeal over time to address requirements for specific products and specific phases of the collection process. Though they may have offered significant improvements over earlier manual methods, these systems have now reached the limits of their effectiveness. Some banks still rely on semi-manual processes with import and export of data into spreadsheets for analysis. But most use multi-component systems built up over time and often acquired as adjuncts to core banking solutions or for the application of scoring data. These systems rely on program code to manage workflows and collection processes and involve risky movements of data between modules to provide full process coverage.

Where change is infrequent, this approach, while costly, may still be able to handle standard collection workflows effectively. But these applications start to become a liability to the bank when the pace of change increases. The time taken to redefine and recode makes them too slow for fast-moving markets and the cost is too high to allow proper high-speed testing, including champion/challenger comparisons. As in other industries, new systems are needed that put the power directly in the hands of the end-users, giving collection managers the tools to minimize risk and maximize loan revenues, and to control all the resources involved. This requires fundamentally rethinking the approach to collections technology in order to create user-oriented toolsets using business terminology and direct-user workflow and process definition, without the need for IT support whenever changes are necessary. Banks should expect a future in which constant change is the norm for collection processes and workflows, making it vital to ensure that these are continually refined and optimized.

No bank is immune to today's cost pressures or the need for a standardized approach to risk management. Both these factors argue against the traditional, fragmented approaches that led to banks needing dozens of different software solutions to manage collections across their portfolios of consumer and corporate loan products. Reducing risk demands standardized processes that are applied consistently across the loan portfolio, while cost efficiency demands a single set of consistent processes that agents can utilize for different loan products and IT can support for all requirements. Collections and recovery is moving rapidly from being a "good enough" requirement to being a key tool for the management of credit risk and, more strategically, for the optimization of the bank's performance.

What is needed in next generation solutions

- Future solutions must reflect a world in which change is the norm
- Monitoring will need to become a near real-time process to support changes that are highly responsive to prevailing conditions
- The aim should be to industrialize the parts of the collection and recovery process that can be fully automated and empower business users (through information and the ability to make changes) to focus on adapting business processes to optimize results for the bank

It is essential that future solutions can adapt fast to changing market conditions. Banks must learn to manage risk in their businesses in response to rapid economic changes, and operational and technology systems must reflect that, adapting readily as market and macroeconomic conditions alter.

To do this, collection systems used must provide support for defining and applying strategies, as well as monitoring and measuring their performance. The time needed to go through the continuous cycle of rethinking-applying-measuring should be minimized, and that can only be achieved by systems that give end-users tools for each of these stages. Next generation solutions should support the ongoing measurement and evaluation of:

- All resources involved, including agents , agent groups, call centers, and external vendors
- Risk segmentation models
- Complete strategies, or parts of them

When weak points are identified, systems must provide end-users with tools for defining and testing alternative approaches, through test and learn or champion/challenger campaigns. In a volatile financial environment, it is essential that new business processes are set up and applied rapidly.

Centralized, standardized approaches to arrears and collections inevitably tend to restrict the options available to end-users. That is unavoidable. But efforts must be made to ensure the solutions adopted do empower business users to use their skills and judgment where appropriate. The functions of arrears management and collections are simply too critical to be deskilled and reduced to mechanical processes.

The objective must always be to provide structure, consistency and automated efficiency within the process, while also presenting the collections manager with real operational flexibility. What is needed is a single solution that will operate smoothly across the entire loan portfolio and every stage of the debt life cycle, while enabling users to make their own adjustments so that the subtler nuances of each line of business can be reflected in day-to-day arrears and collections activity.

If business users are to make these detailed adaptations, they have to be able to do it themselves, rather than relying on the interpretations and availability of IT programmers. But it is important to remember that these front-line users are increasingly likely to be Generation Y youngsters, born after 1982, who have grown up in a digital world where clicking and pinching and drag-and-drop interfaces are the expected ways of interacting with equipment. For these children of the iPhone and iPad age, monochrome, text-based interfaces with boxes into which the user types codes and numbers seem ridiculously clunky, slow and inefficient. They are used to the slick, fast GUIs of consumer devices, and even video games, and these are the kinds of graphical user interfaces that will get them working most happily and productively to visualize the business domain and change strategies or operations.

This confident familiarity can be harnessed with tools, such as drag-and-drop icons for remodeling processes, that will allow changes to be made on the spot. Alongside approaches like parameterization – where the system offers a range of probable values, rather than expecting the user to start from scratch – these interface technologies can make a real, positive difference to the output of a collections team. A system that looks as if it dates back to the 1990s may make older staff feel comfortable, but as the next generation takes its place in the organization, expectations about usability are changing rapidly. This is about productivity, enabling end-users to understand and act intelligently, not about style.

How the best specialized systems optimize performance and profit

- Banks are looking to improve collection rates by 2% to 10%. Even at the lower end, this is enough to have a noticeable effect on profitability

- Loan collection is a competitive exercise and even small advantages can be critical in securing a position in the customer's priorities list

- Segmentation has become a subtle and complex process that draws on customer and account analytics, reflecting past behavior and the ustomer's likely future value to the business

The potential for improving debt collection rates depends on factors like maturity and markets, but is generally reckoned to be in the region of 2% to 10% for most banks. In some special situations, starting from a low base, spectacular improvements have been recorded, such as a 200%-plus increase in outstanding debt collected, a 70% improvement in agent productivity, or a doubling of promises to pay. But even a few percentage points is a gain that is well worth aiming for, especially in view of the highly geared impact on a bank's capacity to do business, and can often have a measurable impact on bottom-line profitability.

One important practical influence on a bank's collection and recovery performance is the competitive position. Just as businesses compete for the customer's dollars, euros, pounds or yuan when trying to sell their products and services, they must also recognize that debt collection is a competitive situation. For a consumer credit customer who is finding it hard to manage on a budget, loan repayments are competing for a limited amount of cash with everything else the consumer needs or wants to pay for. Since customers often have multiple debts, the collection operation is probably competing directly with other creditors in a scenario where not all debt obligations will necessarily be fulfilled.

In this context the bank must be able to move fast, at the appropriate moment, to protect its assets, and proper tracking, event flagging and instant access to debtor information are essential. The first creditor to agree a promise to pay with the customer is the most likely to get the money in. The further back in the queue a creditor is, the more likely the loan is to end up as a default. In this sense, even a slight advantage bestowed by better technology or a more finely adapted system can make a critical difference. One hour earlier can secure your place in the queue and protect that loan.

Nevertheless, successful collection and recovery is not just a matter of timing. It is also a question of approaching the customer in the right way and applying the right arguments and pressure to achieve the required result without fracturing the customer relationship. The goal, as ever, is to address the right customer and make the right offer at the right time.

Customer behavior may change, and when it does the collection process needs to recognize that and change, too. Scoring is something that may need to be used several times, at different points in the collection life cycle, to help the collection team decide on the right strategy and approach. For example, scoring may be the key factor in deciding whether a particular non-performing loan is suitable for restructuring.

Where segmentation of delinquent customers used to be based mainly on payment history, the newest specialized systems can take into account many other measures, including credit ratings and scores, product type, and months on book. There may also be metrics that reflect past behavior and recognize the past and probable future value of a particular customer. These may include, for example, the profitability of past product purchases and the length of time the person has been a customer.

Analysis of these topics obviously requires access to many disparate information sources and this can be complicated by changing company circumstances, such as mergers and reorganizations, which may mean that customer information is scattered across different systems. Accurate segmentation is the key to successful collection, and it requires access to a fully integrated 360° view of the customer's situation to ensure that all the relevant information is available to support the right decisions and action.

Lastly, it goes without saying that the faster a productivity-boosting system can be deployed, the sooner an organization can benefit from increased revenues and lower operating costs. Where specialized collection and recovery software is already fit for purpose and requires little fine tuning on the way to full operational implementation, the ability to bring forward deployment by weeks or months will have a significant bearing on business case calculations about the new system's total cost of ownership.

What to look for when shortlisting suppliers

- Factors like integration, adaptability, and specialist expertise may be difficult to quantify, but they are likely to be crucial to the success of any new collection and recovery system in today's unpredictable conditions.

- The business environment detailed in this white paper will inevitably place special emphasis on seven factors – supplier expertise, productivity potential, integration, adaptability, scalability, independence of IT support, and analytics. These will be the keys to higher collection rates and lower operating costs.

For most banks, improving debt collection and recovery is an easy win, a low-risk, high-reward opportunity to cut operational costs and improve performance. The investment required is relatively small and it is unlikely to place onerous demands on other aspects of the organization's operation and infrastructure. In addressing an area in which few institutions achieve optimal performance, it offers the chance to do business more profitably within an existing customer base.

Any financial institution that is planning to make the investment in modernizing and streamlining its debt collection and recovery operations will have its own formal specification of what a new system must be able to handle. But over and above the numerically defined aspects of the specification, this white paper has drawn attention to the other capabilities and qualities that are likely to become increasingly important in the coming years.

Factors like "adaptability" may be hard to define , but its importance will be clear enough afterwards if the new system that is implemented does not adapt quickly and easily to changing circumstances. Similarly, if the need to call on the IT department's programming skills seems to be a frequent barrier to progress, managers and business users who have to work with the new system will soon be aware that they have not achieved the responsiveness and flexibility they were looking for.

In the light of the changing commercial and regulatory environment outlined in this white paper, there are seven key elements that should be taken into account in drawing up a short list of potential suppliers for a collection and recovery system that will meet present and future needs.

These are:

Specialist expertise in the credit risk cycle

without which there is little chance of a collection and recovery system mirroring the practical realities of a specialism that is little understood by non-practitioners.

Productivity potential

in terms of cutting costs by providing tools that collection teams can use quickly and easily for day-to-day activities, while automating time-consuming tasks, such as workflow and work queue prioritization, portfolio segmentation, and communication with customers and outside bodies.

Integration

providing a single software suite for every phase of the collection life cycle and all types of corporate and consumer products, from credit cards and mortgages to business loans. True integration allows collections to be handled as one workflow, with no importing or exporting of data.

Adaptability

as demonstrated by the use of visual graphic interfaces to represent and control processes and allow end-users to make immediate workflow changes to meet changing business requirements.

Scalability

including the ability to add more loan products or handle the surge in user numbers that comes with successful new product launches (or seasonally).

Independence of IT support

allowing business users to make business-driven modifications without having to translate their needs into IT terms and wait for coding resources to become available, even in the face of mergers, regulatory action, or product changes.

Analytics

monitoring of activity, volume, effectiveness, and costs and user-specified KPIs provides the data to allow real-time analytical reporting and experiments such as champion/challenger comparisons.

About EXUS

EXUS is an international enterprise software company specializing in credit life cycle management. EXUS was founded in 1989 with the vision to transform the complex software industry, making it simple, accessible and exciting. Our products have been designed through a deep understanding of our customers' needs and in line with our purpose to simplify complexity and enable intelligent action.
Through our corporate headquarters in London, our offices in Athens and our partners, we support financial organizations and telecom operators around the world to improve their credit risk management efficiency, increase confidence in their strategic decision-making, and achieve success in demanding and competitive markets.

EXUS. FINANCIAL SUITE

"**EXUS Financial Suite**" (EFS) is our comprehensive suite of software applications that manages credit risk along the whole lifecycle of accounts, from the moment of disbursement until write-off or debt sale. EFS helps organisations in 26 countries around the world to identify and treat credit risk early, perform efficient collections, manage legal proceedings and recoveries and again detailed insight into portfolio evolution, collections strategies and resource efficiency.

EFS was rated "**best-in-class"** solution for collections in the first ever global technology analysis of loan collections systems by leading industry analyst issued by Gartner.

To find out how EFS can help you manage your collections teams effectively and turn your collections operations into a profit centre, join one of our free product webinars by sending us a mail at info@exus.co.uk

Gain collections insights every week by subscribing to the EXUS Collections Blog.

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