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

An Experian white paper

December 2009
Prevention is better than cure: the role of a pre-delinquent strategy in managing bad debt
Executive Summary

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.

The aim is to aid identification of customers likely to become delinquent and target appropriate actions that:

- Encourage payments ahead of potential delinquency.
- Minimise ‘at risk’ exposures.
- Manage potential high risk debt by sensitive treatment of customers at an earlier stage of the process.

Benefits of taking this pre-delinquency approach include:

- Reduction in the number of accounts moving into ‘true’ collections.
- Significant reductions in provision for impairment.
- Trade-off of successful preventative costs compared with longer term unsuccessful collection costs.
- Keeping profitable accounts live.
- Driving up customer lifetime values.
- Demonstrating sensitivity and offering advice when most needed.
- Compliance with regulatory guidelines to ensure fair treatment.

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.

This paper examines where pro-active preventative activity has been shown to add significant value to the collections process.
Prevention is better than cure: the role of a pre-delinquent strategy in managing bad debt
## Contents

1. A Changing World  
2. Dealing with financial difficulties  
3. Strategic framework for preventative collections actions  
4. Knowing your customer  
5. Understanding your customer  
6. Targeting your customers  
7. Interacting with your customers  
8. Systems implications for pre-delinquency strategy  
9. Pre-delinquency in action: a major European Bank  
10. Pre-delinquency in action: a mid sized UK lender  
11. Conclusion  
12. About Experian
1. A Changing World

Over the last few years, many organisations have had a primary focus of aggressively growing their portfolios within a highly competitive market environment. Investment therefore has been primarily directed at the marketing and acquisition support systems.

In contrast, the collections process has typically taken a secondary supporting role and has not had the funds to implement flexible systems that are capable of reacting to the changing characteristics of collections cases arising from the recession.

Many organisations, when faced with this challenge, have attempted to deal with the worsening delinquency levels by simply increasing the number of collectors available, but have misguidedly retained the same contact strategies. Alternatively, they have simply sold more debt earlier in the collections cycle, thereby losing valuable customers who are experiencing temporary difficulties.

This approach has ultimately been found to be of limited value, with delinquency roll rates continuing to deteriorate and the collections workload continuing to grow at a faster rate than collectors can be recruited to manage it.

To solve this dilemma it is necessary for organisations to start considering a new strategic approach to dealing with the increased caseload and growing levels of bad debt.

Preventing bad debt via a pre-delinquency customer management strategy is an area that is being increasingly explored by lenders. This is the practice of pro-actively contacting customers who are currently up-to-date and are not yet debtors, but have a predicted high risk of becoming delinquent in the near future. As a result of customer interaction, decisions are made as to whether the account should be left alone, accelerated into an early collections process, restructured or managed to accommodate temporary customer difficulties.

By creating this understanding, and setting a course of action before the customer becomes delinquent, it is possible to reduce the amount of effort spent in the true collections process on ‘no hope’ cases, while concentrating efforts on cases where rehabilitation might be possible.
2. Dealing with financial difficulties

The standard, and typically reactive collections approach, is to use the first missed payment as the initial trigger to initiate contact strategies. Likewise, customers who have financial difficulties rarely volunteer that they are struggling and typically try to avoid contact once a payment has been missed.

This leads to a position where both parties only look at the problem after the missed payment. By this time the collections process is under way and communication is typically focused on recovering the arrears as fast as possible. Failure to establish communication at this early stage will result in further missed payments and lead to a situation where the customer cannot recover.

The alternative is to consider what preventative action can be taken with a customer before the payment has been missed and to help handle the longer term exposures. The primary objective therefore should be to predict and pre-empt delinquency so that appropriate steps can be taken which would prevent the customer becoming delinquent and, if this cannot be avoided, manage the relationship with the customer and reduce the exposure to the lender.

Preventative Review & Action

Mainly strategic perspective aimed at preventing future delinquency

Identify changing behaviour patterns

Affordability estimate

Control exposures and product offerings

Contact to offer advice and guidance

Early Collections Process

Mainly operational focus aimed at cost control / stabilising or improving roll rates

Establish contact channel and timing

Late Collections & Recoveries

Mainly operational focus aimed at maximising full balance / assets recovery

Use of third party debt recovery agents

This is a delicate balancing act: ending a relationship too soon could lose future revenue, too late will reduce the ability to collect further amounts
To implement a pre-delinquency strategy there are four key steps that contribute to an accurate assessment of the customers' circumstances and guide the potential actions that need to be taken.

In the pre-delinquency environment careful management of this process is particularly vital, as the customers are all still 'good' customers and any misalignment of message or approach with their circumstances could potentially damage good customer relationships and lead to a loss of business.

This framework embraces four key requirements:

**Data and data cleansing**
- *Knowing your Customer*

**Analytics and Data Intelligence**
- *Understanding your Customer*

**Strategy and Segmentation**
- *Targeting your Customer*

**Workflow and Process Management**
- *Interacting with your customer*
4. Knowing your Customer

For many organisations the internal information is the only perspective they have on an individual customer. Some of this information is provided at the point of application and may be out of date. However, it will include data that, if still valid, will allow affordability to be assessed as well as a risk of default score.

Many organisations continue to use this view in their ongoing risk assessment procedures on the assumption that, either changes have not occurred, or that they have minimal impact. The reality is that this information alone is insufficient for a pre-delinquent strategy to be effective, as circumstances do change and when customers are under stress this change can be drastic and fairly rapid.

Therefore, the identification of changing behaviour patterns that are indicative of financial difficulties - before a missed payment occurs - is vital if a business is to make an early pro-active intervention.

Looking solely at internal information can give some indication of customer changes; however, external bureau data will add significantly to the pattern recognition process and is essential if an accurate pre-delinquency strategy is to be implemented.

In addition, the use of data triggers can help specific messages to be targeted to customers based on relevant information.

Some potential examples of triggers of changed financial circumstances can be summarised below:

<table>
<thead>
<tr>
<th>Delinquency information</th>
<th>Internal triggers</th>
<th>External triggers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Recent over limit activity</td>
<td>Missed payments with other lenders</td>
</tr>
<tr>
<td></td>
<td>Recent mild delinquency</td>
<td>Court judgements</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Bankruptcies</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Increased indebtedness</th>
<th>Internal triggers</th>
<th>External triggers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Repeated requests for credit limit increases and associated high balance utilisation</td>
<td>Changes in usage patterns on revolving accounts</td>
</tr>
<tr>
<td></td>
<td>Increasing utilisation over time of credit limit or overdraft</td>
<td>New credit taken out</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Reduction in credit cash flow</th>
<th>Internal triggers</th>
<th>External triggers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Recent declined authorisations (or returned cheques)</td>
<td>Affordability based on commitments</td>
</tr>
<tr>
<td></td>
<td>No salary credit on a current account (DDA) for, say, 35 days</td>
<td>Increasing balance on revolving product</td>
</tr>
<tr>
<td></td>
<td>Decrease in the overall credit turnover in the account</td>
<td>Cash advance increase</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Behaviour of a full balance payer changing to make a minimum balance payment</td>
</tr>
</tbody>
</table>
5. Understanding your customer

The development of a focused model, which combines internal and external data to build powerful and predictive scores that identify potential pre-delinquency over a short period can enable:

• A rapid response to changing behaviour patterns.
• Latest information to be incorporated and therefore does not rely on data that may become stale.
• Enough time to take remedial action with the customer.
• Problems to be intercepted before they manifest themselves as a missed payment.

The example above shows a bespoke score that was targeted to identify currently up-to-date customers who would miss a payment in the next two months. At one end of the spectrum the risk of the customer missing a payment in the next two months is very low – less than 3% of this group is predicted to default. At the other end, over 50% of this group is at risk of missing a payment. It is this group that would be targeted by pre-delinquency activities.

In the case of such a high risk group the time advantage of taking action on a customer one or two months ahead of a missed payment potentially allows lenders to reduce the flow of cases into formal collections, minimise exposure at default and support the retention of customers who will be valuable in the longer term.

However, care must be taken in designing the targeting strategy to ensure that the overall combination of pre-delinquency work and standard collections work does not exceed the current workload of the collections team. As part of this process it is essential to test and verify the scorecard to ensure that it is not generating false positives which would erroneously increase the number of pre-delinquent accounts for treatment and drive up the overall workload.
The objective of the targeting process is to enable lenders to segment the pre-delinquent customers into groups for an appropriate contact strategy, based on their risk of becoming delinquent, the size of the balance at risk and their value to the organisation. This ensures that the communication is matched to the customer so that the contact is relevant and supportive. As the customer has still not missed any payments with the organisation a light customer management approach should be taken.

At the heart of a pre-delinquent strategy is the offer of financial advice and guidance for the customer. The provision of advice in the form of printed documents, self-service websites and financial ‘health checks’ provide an opportunity for those customers under financial pressure to either take their own steps to ‘self cure’ or alternatively to pro-actively engage with the lender to discuss how they might resolve their current, but as yet undisclosed, financial difficulties.

To aid in the segmentation a combination of predictive models and recent change type characteristics can be used in combination to help segment the customers into key groupings.

<table>
<thead>
<tr>
<th>Trend</th>
<th>Potential indicator of:</th>
</tr>
</thead>
<tbody>
<tr>
<td>No credit turnover for more than 35 days</td>
<td>Loss of employment / income</td>
</tr>
<tr>
<td></td>
<td>Illness (long / short term)</td>
</tr>
<tr>
<td></td>
<td>Bereavement</td>
</tr>
<tr>
<td>Bureau data deterioration</td>
<td>Lack of ability to pay</td>
</tr>
<tr>
<td>Default on other lender account</td>
<td>Widespread financial difficulties</td>
</tr>
<tr>
<td></td>
<td>Over commitment</td>
</tr>
<tr>
<td></td>
<td>Affordability issues</td>
</tr>
<tr>
<td></td>
<td>Unwillingness to pay</td>
</tr>
<tr>
<td>Worsening behaviour score</td>
<td>Increasingly over-indebted</td>
</tr>
<tr>
<td></td>
<td>General financial stress across multiple products</td>
</tr>
<tr>
<td>Rapid increase in revolving credit line usage</td>
<td>Financial stress and cash flow issues</td>
</tr>
<tr>
<td></td>
<td>Runaway spend or fraud</td>
</tr>
<tr>
<td>Unusual transaction patterns (e.g. rapid transactions, high value, same value transactions etc)</td>
<td>Fraud</td>
</tr>
<tr>
<td></td>
<td>Change in circumstances</td>
</tr>
</tbody>
</table>
For illustration purposes only, the following segmentation information can be used to segment customers into distinct groups and the actions taken matched to the appropriate circumstances.

An example is that letters sent to a group identified as financially stressed may refer to the offer of a financial review.

The information typically available can include:
- Currently not delinquent.
- Not previously selected for pre-collections in x months.
- Not exception / investigation case.
- Internal characteristics.
  - Salary change / cease.
  - Utilisation increase.
  - Increasing number of overdrawn days.
  - Risk score.
- External characteristics.
  - Risk score.
  - Affordability.
  - Trigger indicating change on account (address / phone etc).
  - Bureau risk score.
  - Court order / Bankruptcy.

An example strategy test illustrates the matching of characteristics to the actions taken.

The targeting process should look to segment the pre-delinquent group into segments based on their propensity to respond to particular strategies.

**Lower Risk:**
- Email with link to financial advice site.
- SMS with response option to receive advice kit.

**Medium Risk:**
- Letter with advice kit included and link to advice website.

**High Risk:**
- Letter with advice kit and offer of consultation via telephone or ‘at branch’.

**Very High Risk:**
- Immediate outbound call with offer of financial health check.

In all segments, there is the assumption that the action will drive a level of inbound calls, hence the need to initially run a champion/challenger strategy to assess responses and call volumes. Based on experience and response, the scorecard used to generate the risk banding within the pre-delinquent customers can be modified to increase the effectiveness of the banding and ensure that collections staff are only working the cases with the greatest potential.

At any time, the use of bureau triggers can be used to change the segmentation and move accounts into different segments. For example, the trigger of a county court judgement being registered against the customer would automatically move the account to the Very High Risk band for a pro-active outbound call.

Alongside external activity, the organisation may want to implement a range of strategies into the customer management process. Automated and manual limit reviews should include the pre-delinquency risk, and organisations may want to proactively reduce limits for customers with available credit to minimise exposure if the customer does default.

The information also needs to be available to the new business process, so that applications for additional products and credit lines can be fully considered and lending carried out responsibly.
7. Interacting with your customer

Best practice in pre-delinquent collections is to create dedicated teams to deal with customer interaction. These ‘counsellors’ need to be trained to talk to customers about their financial situation and effectively use information about the customer and their products. Because these teams are dealing with customers who have a high potential for becoming collections cases it is better practice that the membership is drawn from within the collections operation, rather than relying on a customer service team.

Contact can be initiated by letter, email or even SMS - depending on the quality of the data and the availability of online self service advice websites - using an appropriate educational tone of voice:

- Recession means we are offering advice and guidance to our customers.
- Drawing the customer’s attention to the lender’s rules about the ‘exposure’ any one customer can have, both in one section of lending and across all products.

The ‘Won’t pay’ customers will typically ignore this type of contact but recent trials in the UK have shown that a significant number of customers will respond and many of these are having difficulties in maintaining payments. This percentage on a highly targeted group can be as high as 50%.

For customers who respond, a discussion script will be required as several sub-groups will emerge that need to be assessed and the appropriate action taken.

**Temporary difficulties**

Some customers will indicate that they are in temporary difficulties. Examples may include loss of job, illness or marital break-up. The collector should assess whether this genuinely is short term and consider what action is appropriate. This may include reduction in payment for an agreed period, suspension of payment and/or interest and an agreed review date. This process is effectively the same as a collection case but will typically occur two to three months earlier.

These customers typically can be rehabilitated in the short to medium term.

**Financial review**

Some customers will need to be assessed objectively and, occasionally, circumstances will be identified where additional lending or restructuring of their debt is appropriate.

For selected customers who do not respond, as well as those in the very high risk band, a proactive outbound call is appropriate. The tone of the communication should be similar to the letter and the approach is made in a non-accusatory, non-threatening style.

Using this method some additional customers are identified for further action and if, at a later stage the customer does miss a payment, then reference to the offer of financial review can be iterated as part of the collection process. This method of treating the customer fairly and giving opportunity for dialogue is becoming more of an issue with regulators.

**Long term difficulties**

Occasionally customers will indicate that there are long term issues that are unlikely to be resolved in the near future (say more than six months). These may include long term illness or a job loss in an industry or area where the customer is unlikely to be able to find a job easily. In cases like this it may be appropriate to see whether insurance cover is available and consider decreasing the credit limits to reduce long term exposure.

Alternatively, if there is no hope of recovery then accelerating the account through collections will reduce the costs of staff working low probability accounts and transfer to debt collection agents or write-off may be appropriate.
8. System implications for pre-delinquency strategy

To develop preventative strategies that can be implemented in the short term, the organisation has to recognise that any design needs to fit into the existing system framework.

Typically there are distinct systems for dealing with the customer management and collections processes but with careful assessment and planning, this should not unduly limit the scope of any developments. In the longer term, specific customer management / collection hybrid functionality can be developed on a single platform that could integrate customer management strategies with debt management objectives for a streamlined, consistent approach.

The pre-delinquency strategy can therefore be handled within the customer management and/or collection environments. In some cases, extracts from host systems have been used to generate mailing lists and dialler queue campaigns. The example framework, based on a decision engine, may include the following:

- The system takes behavioural and historical data from the account management system to create a customer profile based on behavioural data from the entire range of products held by the customer.

- Data is aggregated from all the customer’s accounts and combined with demographic and credit bureau data. Using behavioural scoring models at account and customer level, a customer profile is created that encapsulates the individual’s entire credit exposure and likelihood of becoming delinquent.

- This profile is used to set strategies on a monthly basis, combined with behavioural data, cash-flow analysis and triggers to carry out a pre-delinquency assessment. This analyses the behavioural trends and identifies deterioration which could indicate a change in the customer’s situation. If this trend is worsening, strategies can be put in place to reduce, or not increase the exposure of the bank. This may include tactical pre-collection activity by controlling the account facilities such as limit management, authorisation control and renewal of borrowing facilities such as overdrafts.

- The information from the monthly assessment is used in conjunction with a daily assessment of customer behaviour. It uses a set of triggers to identify customers that may require immediate attention.

- Triggers including limit use and overall indebtedness are used proactively to identify customers at risk. They are also used to identify customers who have become delinquent and to identify where the relationship is deteriorating further, such as an increase in arrears or becoming delinquent on another product.

- Daily assessment enables immediate action to be taken that is appropriate to the situation, such as contacting the customer or increasing the priority of the collections activity. This enables pre-emptive actions to be implemented, helping customers who may be heading for financial difficulty, reducing delinquency, but also creating a relationship with the customer that builds loyalty and contributes to the client’s commitment to responsible lending.

<table>
<thead>
<tr>
<th></th>
<th>Customer Management systems</th>
<th>Collections systems</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pros</td>
<td>Behavioural data</td>
<td>Workflow available</td>
</tr>
<tr>
<td></td>
<td>Time series information</td>
<td>Power dialler access</td>
</tr>
<tr>
<td></td>
<td>Change information</td>
<td>Payment arrangement</td>
</tr>
<tr>
<td></td>
<td>Customer view</td>
<td>functionality</td>
</tr>
<tr>
<td></td>
<td>Regular access to external data</td>
<td>Potentially has a customer view</td>
</tr>
<tr>
<td></td>
<td>Ability to design and manage analytics and scorecards</td>
<td>Potentially has regular access to external data</td>
</tr>
<tr>
<td></td>
<td>Monitor pre-delinquency strategies for profitability</td>
<td></td>
</tr>
<tr>
<td>Cons</td>
<td>Limited / no workflow</td>
<td>Only modern collections systems (less than 5 years old) are customer driven</td>
</tr>
<tr>
<td></td>
<td>Special process needed to send to phone queues</td>
<td>Only modern systems are designed to manage pre-delinquent strategies</td>
</tr>
<tr>
<td></td>
<td>Need to transfer to collections where issues identified</td>
<td>Limited analytics and no scorecard development</td>
</tr>
</tbody>
</table>
Detailed contact strategies are set up in the collections system to match those defined in the customer management system.

Scripts and guidelines for contact are built in the collections system.

The collections system implements and manages the strategies, including the inbound and outbound calling and the management of the pre-delinquency team.

Results of the strategy are fed back into the customer management system on a daily basis for reporting purposes and to allow the further refinement of scorecards and collections segmentation.

Current customer strategies are available at every customer touchpoint so the insight can be used in every decision made for a customer.

If a customer does then become delinquent, the information already stored in the respective systems can be used to set and prioritise the most appropriate collections strategies. Using behavioural data from the pre-delinquency stage to determine the collections approach has proved more effective as it offers a more complete picture of the customer than just looking at the delinquency information.
The bank had robust systems and processes to manage customers who became delinquent in order to recover the outstanding debt and rehabilitate them.

However by this point, the relationship has already deteriorated and the organisation was incurring collections costs. The bank recognised that a proactive approach, taking action before a customer becomes delinquent, could have an impact on delinquency levels and improve the effectiveness of the collections activity and reduce the exposure of the bank.

The bank recognised that its current infrastructure, with distinct systems for customer management and collections, were not able to be proactive in preventing delinquency. It wanted a single platform that could integrate customer management strategies with debt management objectives for a streamlined, consistent approach. In addition, as a retail bank with multiple product lines, it recognised that these strategies needed to be set at customer, rather than account level.

The primary objective was to give the ability to predict and pre-empt delinquency as part of an end-to-end customer and debt management strategy.

Following a vendor evaluation the client chose Experian’s customer management system, Probe SM, delivered with behavioural scoring and consulting. The system deals with strategies for all stages of the debt management life cycle from pre-delinquency, early and late collections and recoveries. Experian was chosen because of its proven track record in delivering customer-level management systems and because the technology could be deployed across the business into all product lines.

A complete picture of the customer
The Probe SM system delivered integrated multiple decision engines to provide a complete picture and management process for each customer. The system takes behavioural and historical data from the client’s account management systems to create a customer profile based on behavioural data from the entire product range.

Data is aggregated from all the customer’s accounts and combined with demographic and credit bureau data and cash-flow analysis. Using behavioural scoring models at account and customer level, a customer profile is created that encapsulates the individual’s entire relationship with the bank.

Pre-delinquency assessment
This includes the pre-delinquency assessment which analyses the behavioural trends and identifies deterioration which could indicate a change in the customer’s situation. If this trend is worsening, strategies can be put in place to reduce, or not increase the exposure of the bank.

The profile is used in segmentation to set strategies on a monthly basis which are used to drive the customer management and collections activities for each customer.

The information from the monthly assessment is used in conjunction with a daily assessment of customer behaviour. It uses a set of event triggers based on internal and external data to identify customers that may require immediate attention.

Triggers are used proactively to identify customers at risk, using triggers including limit use and overall indebtedness. They are also used to identify customers who have become delinquent and to identify where the relationship is deteriorating further, such as an increase in arrears or becoming delinquent on another product.

Daily assessment enables immediate action to be taken appropriate to the situation, such as contacting the customer or increasing the priority of the contact activity. It has enabled the client to implement pre-emptive actions, helping customers who may be heading for financial difficulty, reducing the potential for delinquency, but also creating a relationship with the customer that builds loyalty and contributes to the client’s commitment to responsible lending.

Integrated with collections strategies
If a customer does then become delinquent the same information is used to set the priority to the most appropriate collections strategies.

Benefits
• Proven return on investment.
• Reduced number of cases entering collections with proactive management of potential delinquency.
• Reduced levels of exposure for high risk customers.
• Increased portfolio profitability with more customers contributing and less debt.
• Reduced bad debt write-off with more debt recovered and lower value delinquency cases.
• Improved recovery rates and more customers rehabilitated with rapid, appropriate treatment.
• Stronger relationships with customers with proactive management of customers facing difficulties.
• Reduced collections costs by decreasing the number of collections cases.

9. Pre-delinquency in action: a major European Bank
10. Pre-delinquency in action: a mid sized UK lender

A mid-sized UK lender was looking to optimise its collections procedures. The lender recognised that taking a pre-delinquency approach to customers that were thought to be in difficulty would be advantageous and enable dialogue to take place prior to other lenders also chasing the customers for debts. The aim was to establish control and rapport with the customer and thereby gain payment commitment whilst the issues were still manageable.

The first step was to build specific scorecard models that used a combination of internal and external bureau data that could be applied to non-delinquent customers. The models were built to predict the fairly short term behaviour of ‘missing a payment in the next three months’.

The lender used these scorecards to rank order the customers and the lowest 15 percent were sent letters inviting them to review their finances. The letter was non-threatening and written in the style of a customer service letter. This was followed up on the lower five percent of customers with a phone call seven to ten days later, again offering a financial review.

Approximately fifty percent of customers in the test responded positively at this stage with many acknowledging they had issues. The cases were reviewed by collection staff who worked with customers to manage their proposed payment schedules. Remedies at this point included:

- Do nothing
- Restructure the term of the deal
- Restructure the payment amount
- Support with frozen interest
- Support with deferred payment

Care was taken to identify whether the issues raised were long or short term in nature and the remedies were only used where appropriate. Overall, dealing with the customer before they became a serious problem meant that relatively few subsequently went delinquent over the following nine months.

Of the customers who did not respond or did not acknowledge any issues the majority missed payments within the three months. The first collections letter referred to the previous offer of a financial review and reoffered the service. Around half of these customers responded and subsequently cleared collections, however their subsequent re-entry into collections seemed unaffected.

Of the customers who failed to respond at all the lender accelerated the default letter stage at the end of cycle 1 rather than run the standard procedures where this would typically run for three to six months.

Benefits included reduction in delinquent cases, reduction in collection costs, more rehabilitated customers and positive impact on provision rates.

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Responded</th>
<th>Non respond</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Delinquent at 9 mths</td>
<td>Number</td>
</tr>
<tr>
<td>Champion</td>
<td>100%</td>
<td>24%</td>
<td>-</td>
</tr>
<tr>
<td>Challenger</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1-5% Worst</td>
<td>100%</td>
<td>64%</td>
<td>100%</td>
</tr>
<tr>
<td>6-15%</td>
<td>100%</td>
<td>40%</td>
<td>100%</td>
</tr>
<tr>
<td>16-99% Best</td>
<td>100%</td>
<td>17%</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>100%</td>
<td>22%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Table 1 – the Challenger strategy using the pre-delinquent strategies reduced the number of cases going into collections by 2% over the whole group with the customers who responded to the strategy showing significantly reduced delinquency.
The benefits of adopting a pre-delinquent strategy for collections is self evident: If earlier intervention can prevent cases entering collections in the first place, the collections workload will be lower and bad debt write-offs will be reduced. In addition, it is an opportunity to build strong relationships with customers for more effective collections actions if necessary, protecting future revenue streams as well as fulfilling the requirements of a responsible lender.

In practice, achieving these benefits needs careful planning and the ability to access the right data, both internally and from the bureau, and use it effectively to enable the accurate targeting of at risk customers.

While there may be no significant cost associated with a pre-delinquent collections strategy, investment is needed in both scorecard development and in the creation of new strategies in both the customer management and operational collections systems. This will demand internal resources and the use of external consultants experienced in delivering such strategies.

Ultimately the rewards can be high and payback can be extremely rapid. If just five percent of customers can be prevented from entering collections without increasing the size and workload of the collections team, then the value to the business in terms of reduced write-off and future profit from retained customers will be dramatic.
12. About Experian

Experian is the leading global information services company, providing data and analytical tools to clients in more than 65 countries. The company helps businesses to manage credit risk, prevent fraud, target marketing offers and automate decision making. Experian also helps individuals to check their credit report and credit score, and protect against identity theft.

Experian plc is listed on the London Stock Exchange (EXPN) and is a constituent of the FTSE 100 index. Total revenue for the year ended 31 March 2009 was $3.9 billion. Experian employs approximately 15,000 people in 40 countries and has its corporate headquarters in Dublin, Ireland, with operational headquarters in Nottingham, UK; Costa Mesa, California; and São Paulo, Brazil.

For more information, visit www.experianplc.com

About Experian’s Decision Analytics division
Decision Analytics is the international division of Experian specialising in providing credit risk and fraud management consulting services and products.

Over more than 30 years, it has developed its best practice analytical, consulting and product capabilities to support organisations to manage and optimise risk; prevent, detect and reduce fraud; meet regulatory obligations; and gain operational efficiencies throughout the customer relationship.

With clients in more than 60 countries and offices in more than 30, the decision analytics division of Experian delivers experience and expertise developed from working with national and international organisations around the world across a wide range of industries and business size.

For more information, visit the company’s website on www.experian-da.com