



SCOTTISHPOWER

**CCR Conference – October 2009
Segmentation in Domestic Debt Collection**

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Debtor profiling and segmentation

- ScottishPower's operating context
- Why introduce debtor profiling and segmentation?
- What changes were implemented?
- What were the results?

Background



SP is part of the 5th largest energy company in the world

- The Iberdrola group employs c33,000 people
- Provides 22 million energy supply points
- Operates across more than 40 countries
- World leader in wind power
- In the UK, ScottishPower Energy Retail serves c5.3m customers by providing gas and electricity services along with metering, billing, customer service and cash collection activities for domestic and business customers

Credit squeeze intensifies – Unemployment rises

- Rising unemployment & falling disposable income, together with declining household wealth as both housing and financial markets remain weak, will put serious strains on household finances. *Experian forecasts presented opposite.*
- The UK unemployment rate was 7.9% at July 2009 (2.4m), a significant increase on 5.5% (1.7m) at July 2008. We expect this will lead to a sharp upturn in delinquencies and write-offs in the next few years towards 2011.
- Households' access to credit will continue to be limited by the credit crunch. Borrowing, and consumer spending, will contract strongly. Debt delinquencies and write-offs will rise for both secured and unsecured borrowing.
- The debt-fuelled consumer expenditure boom underpinned the UK's strong growth rate over the past decade. Heavy indebtedness, higher savings, more modest job creation and a greater tax burden limit future expansion.
- The Bank of England has cut interest rates to 0.5% in an attempt to limit the recession's depth. There is little scope for further cuts and "quantitative easing" is now the main tool of monetary policy.

October 2009:

43,000 (12%) more domestic debtor accounts
£5.4 million (7%) more household debt

October 2010:

74,000 (20%) more domestic debtor accounts
£13 million (16%) more household debt compared to 2008

In order to avoid any financial impact of this recession, ScottishPower adopted 3 core strategies in managing its debtors position

- (1) Debt risk is driven from customer behaviour – by migrating customers from high risk to low risk products, SP Energy Retail protects itself from this behaviour
- (2) A proportion of the customer base will always not pay – robust debt strategies are deployed for dealing with this delinquent debt
- (3) Managing debt risk is every employee's responsibility – created a culture of risk-based decision making within SP Energy Retail

Debt Risk Scoring

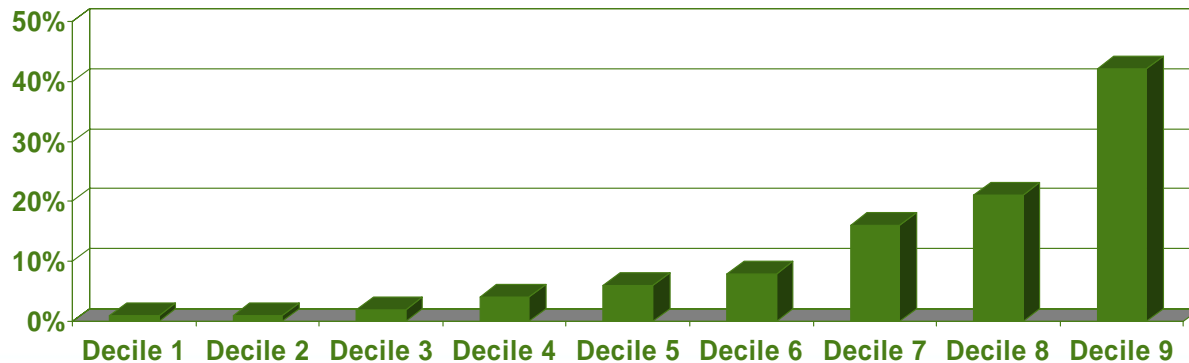


Who looks like they will not pay?

Debt Risk model

- Data included in model build is non transactional:
 - o Customer Golden Account data
 - o Geo-demographic
 - o SP Data on write offs, Change of Tenancies, Change of supplier
- Debt is defined as:
 - o account balance > £25 and debt > 90 days
- Has been applied to all ScottishPower accounts, live and lost
Cash Customers - Aged Debt

Worst Decile = 42% of Debt



Payment History & Profiling

Who pays and who doesn't?

Collection Score	Collection description	Debt Risk Score From - To		
		000 – 079	080 – 089	090 – 099
002	Never post day 7	A	A	A
003	Never post day 14	A	A	A
004	Never post day 21	A	A	A
005	Never post day 28	B	B	B
006	Never post day 35	B	B	B
007	Never post day 42	B	B	C
008	Never post day 49	B	C	C
009	1 post day 49 but never cycled a bill	C	C	C
010	More than 1 post day 49 but never cycled a bill	C	C	D
011	Has cycled 1 bill	D	D	D
012	Has cycled more than 1 bill	D	D	E
013	Never within cycle	E	E	E

Payment Behaviour



Analysis of the segmented and profiled customers indicates clear payment behaviours within the profiles

Low Risk Customers Naturally Pay Early and Maximum Risk Customers Naturally Pay Late

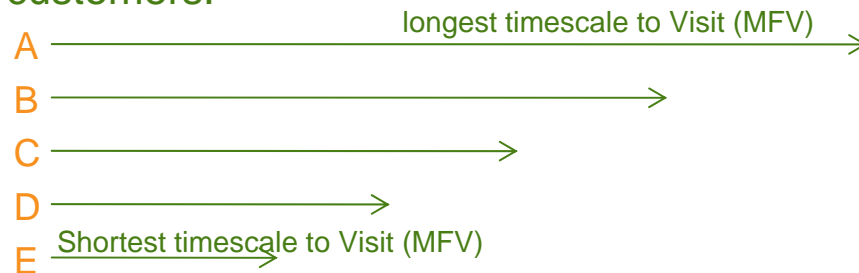
PROFILE	DAYS SINCE INVOICE & % VOLUMES PAID											
A (Good History - always by day 21) = 44%	0-20%	21-40%	41-60%	61-80%	81-100%	81-100%	81-100%	81-100%	81-100%	81-100%	81-100%	81-100%
B (Indifferent - always by day 49) = 29%	0-20%	21-40%	41-60%	61-80%	81-100%	81-100%	81-100%	81-100%	81-100%	81-100%	81-100%	81-100%
C (At Risk - post day 49 but never cycled) = 10%	0-20%	21-40%	41-60%	61-80%	61-80%	61-80%	61-80%	81-100%	81-100%	81-100%	81-100%	81-100%
D (Suspected Delinquents - cycled) = 9%	21-40%	21-40%	41-60%	41-60%	61-80%	61-80%	61-80%	61-80%	61-80%	61-80%	61-80%	61-80%
E (Delinquents - never paid) = 8%	0-20%	0-20%	0-20%	0-20%	0-20%	0-20%	0-20%	0-20%	0-20%	0-20%	0-20%	0-20%

- 0 - 20% Paid
- 21 - 40% Paid
- 41 - 60% Paid
- 61 - 80% Paid
- 81 - 100% Paid

Analysis based on actual ScottishPower Payment Performance data

Segmented debt paths based on a customer's propensity to pay

- Introduction of domestic segmentation for RCQ customers:



- Every strategy used – letters, emails, outbound calls, visits, disconnections
- Daily focus on top 250 debts
- Repayment arrangements for delinquent debt are never > 12 months (exc. vulnerable)
- High disconnection levels relative to rest of UK energy retailers
 - SP Q3 2008 445 (35%) of 1,288 UK disconnections
 - SP Q3 2007 319 (15%) of 2,134 UK disconnections

Changing Culture



Ensuring the fabric of SP Energy Retail (people, processes and systems) evolved to incorporate risk-based decisions at every organisational level

- People strategies
 - Coaching centred around appropriately managing customers onto different products
 - Reward structures based on converting customers to less risky products
 - Adherence measures managed through performance management

- Process and system strategies
 - All sales processes have in-built risk parameters
 - All debt systems and processes have risk determining priority and debt action
 - Risk score gradually being incorporated into all other service processes (eg, conversions, call routing priorities, call outcome priorities)

	May 07	May08	May09
Sales %sales with DD value > £80*	27%	32%	45%
Field Success of meter fit visit (Cash / PPM Agreed).	12%	14%	26%
Service Agent conversions to Direct Debit & Prepayment	5925	17575	19426

* Current average DD value

Debt Achievements

Successful debt management against a backdrop of severe recession

Highest DD penetration in industry

c.600k (90%) PP base installed with secure PAYGO key meters

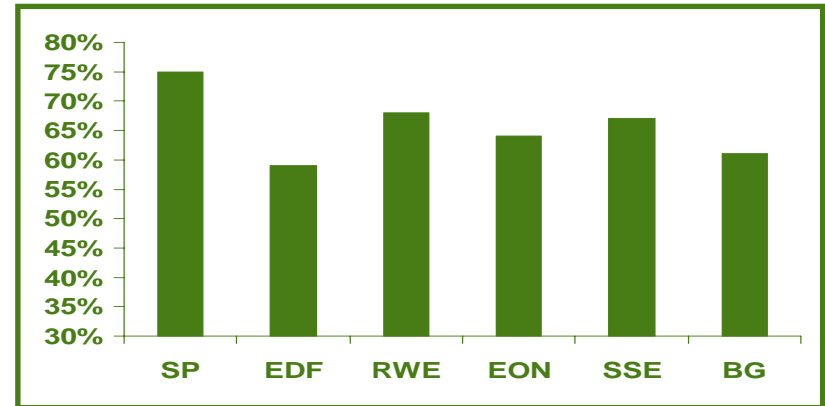
Debtor days reduced by 35% over last 4 years

Debt

Electricity industry average debt £236 vs SP £111

Gas industry average debt £185 vs SP £121

Source: Ofgem quarterly performance Report Q3, 2008



Secure Payment Methods



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Questions